"Solara Active Pharma Sciences Limited Q1 FY-22 Earnings Conference Call"

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MANAGEMENT: **MR. ARUN KUMAR – FOUNDER & NON- EXECUTIVE DIRECTOR.**
MR. RAJENDRA RAO – EXECUTIVE VICE CHAIRMAN (DESIGNATE).
MR. BHARATH R. SESHA – M.D. & CEO
MR. SUBHASH ANAND – ED & CFO
MR. ABHISHEK SINGHAL – SOLARA ACTIVE PHARMA SCIENCES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY22 Earnings Conference Call of Solara Active Pharma Sciences Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. If 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 sir.

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 first quarter ended financial year 2022. Today, we have with us Mr. Arun - Found and Non- Executive Director, Mr. Raj - Executive Vice Chairman (Designate)**,** Mr. Bharath - M.D. and CEO, and Mr. Subhash - ED, and CFO to share the long-term vision for 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 stock exchanges website. The transcript for this call will be available in a week's time on the Company's website.

Please note that today's discussion will be forward-looking in nature and must be viewed in 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 Relations team.

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

Bharath R. Sesha: Thank you Abhishek. Good afternoon everyone. Thank you for joining this call today. For the last few quarters, I have been starting this call by wishing all of you good health and this call is no different. On behalf of all of Solara's employees, I wish you and your loved one's good health and safe life.

Let me talk about our quarter one performance:

It has been a quarter with multiple and significant challenges. The second wave of the pandemic that we all experienced in India has also impacted Solara. 275 of our colleagues and many more in the families of Solara employees were affected by COVID. We also unfortunately lost a colleague to this disease. We have announced and implemented a host of measures to support our employees in these trying times. In addition to that, we have walked the talk regarding employee's safety and wellbeing. We temporarily closed some of our sites and locations in keeping with the guidelines of local authorities and our own safety protocols. In these extenuating circumstances, our employees stood tall and ensure that we met our commitments to customers and to broader society.

Let me talk about our Q1 performance:

In Q1 we also witnessed demand stress in some of our base products, including Ibuprofen. The weak demand was more intense in the regulated markets. This demand situation is on account of the pandemic and we anticipate this to normalize over the next three to six months. We were able to mitigate some of this in quarter one, leading to a performance where we had revenues of INR 4115 million, an EBITDA of INR 951 million with an EBITDA margin of 23.1%. This led to a PAT of INR 501 million. The year-on-year growth of these numbers were 17% on revenue, 10% on EBITDA and 19% on PAT.

Let me talk about some of the underlying drivers behind this performance:

As, I had alluded to earlier there was a reduction in sales to the regulated markets particularly in the base products, and we were able to mitigate this through a very strong growth in new products. We added up to INR 800 million revenue in this quarter from new products. We also grew exceptionally well in focus markets like Asia Pacific, where we have shown a growth of greater than 200% year-on-year. What's important to note, is that we have maintained our share of wallet with all our key customers be it in regulated markets or outside for all our business and particularly in our base business.

Out cost improvement actions both on OPEX and on supply chain continued to be stellar. And despite the pricing pressures that we have on raw materials, we were able to hold our line when it comes to cost in this quarter. R&D productivity continues to be a high attention point and we showed good progress in the quarter. We have concluded the development of seven products this quarter, which is the highest we've done in the history of this Company. And as we progress, we are well on track to complete 10 to 12 DMFs, on a standalone basis in FY22. Our market extensions, which I emphasize means of very efficient growth will be in excess of 25 filings in FY22.

Coming to our CRAMS business:

We've had an excellent quarter, we added four new customers to our CRAMS portfolio, which is the highest we've done in a quarter in the last three years. And our opportunity pipeline, which is the value of the pipeline that we currently are engaged in with customers have increased 40% year-on-year, I reinforced what I said in the last quarterly call, we continue to have very good revenue visibility in our CRAMS business for FY22. In fact, we see visibility where we could potentially grow 50% year-on-year in our CRAMS business in FY22.

Let me also briefly touch upon the future:

In terms of the strategy while we will have a more elaborate discussion later. But just to add some key points here. As we have been talking, Solara's strategy is based on four pillars, let's talk about the base products, which is the first pillar, I did talk about some short-term challenges earlier, I want to reemphasize, we don't see these challenges as structural, we believe that the broader market picture has not changed. And what we are experiencing now in terms of demand is situational. And we are very well positioned to continue to grow profitably in the medium term in our base business. And to this end we have executed or in the process of implementing a few key actions:

- First, we are validating and commercializing a full backward integration for our Ibuprofen business by next quarter, that is quarter three FY22. This capacity that's coming up at our Vizag facility will cater to our entire needs of raw materials for Ibuprofen across Solara's both plants and will anchor our position as a cost leader in the market. In addition to this, this full backward integration will significantly underpin our reliability to our key customers across the globe. We will be amongst only two players in the market who have both scale and full backward integration for Ibuprofen. And this will benefit us disproportionately as demand recovers. On all our base products we have maintained or grown our share of wallet with key customers, especially in regulated markets and this will ensure as demand recovers, we are well positioned to see the benefits accrue to Solara.
- The second pillar of our strategy is new products. And we have shown an exceptional growth in the quarter for new products. In quarter one we've grown more than 50% year-on-year, we continue to see strong demand and momentum for these products in fact for a few of our key products, our entire capacities have been underwritten by customer contracts for the coming three to five quarters. Our R&D velocity continues to improve as I said earlier we've developed seven new products in this quarter. And we will be in due course filing the DMFs for these products. Our work on new technology platforms is progressing exceptionally well. And we are well on track to have at least two of these platforms ready for scale up by the end of this financial year.
- The third pillar is CRAMS. We are making very good headway in our CRAMS business. As I said we've had a record quarter in terms of new customer additions and growth of our opportunity pipeline. And we see very strong visibility for revenue not just by FY22, but we see all the signs that things would look good as we go forward.
- And the fourth pillar of our strategy is inorganic growth. And we continue to stay committed to looking for the right inorganic move to accelerate growth particularly in our CRAMS business.

Accelerating all these levers is our merger with Aurore and we will talk about it extensively later.

So, let me add the market picture before I hand over to Subhash for his comments:

There continues to be an element of uncertainty in demand particularly for base molecules, as various geographies are in different stages of dealing with the pandemic. The regulated market sales will remain muted for the coming quarter and we see normalization of demand over the next three to six months. As I said earlier, we see growing demand for our new products, we are very bullish about the future for our new products and customers are very excited and have underwritten our capacities for few of our growth products as I said for the coming few quarters.

Overall, we see a sober first half on our financials and a stronger second half. And on combined basis, as we've guided in the presentation we see revenue growth more than 30% and EBITDA in the range of 23% to 25%.

I now request Subhash to share some details on the balance sheet and some key ratios.

Subhash Anand: Thanks, Bharath. As commented or communicated by Bharath we see a demand and price pressure on our base product and increase of share of LRM market business share. This has direct correlations and result on some of our financial ratios.

You would have noticed the increase in working capital by almost 133 crores, our working capital going up from 522 crores to 655 crores mainly contributed by higher inventory and receivable. Inventory went up primarily due to buildup of inventory ahead of planned shutdown in quarter 2 to cater the demand in quarter 2 and some of the contractual shipment which we were planning in quarter one got deferred to quarter two. That has an impact on inventory in addition to that, LRM market receivables normally operate at higher DSO and that has led overall increase in working capital for the Company in this quarter.

The higher increase or higher working capital resulted in net debt level moving up from 408 crore to 525 crore over the course of last quarter. The above trend expected to be normalized in the next couple of quarters. Net debt to EBITDA at 1.4x and net debt to equity remain at 0.4x. CAPEX for the quarter was at 49 crores continue to reflect our focus on growth led investment. Asset turns were at 1.6x.

Let me touch on Aurore merger:

We have already filed applications with Stock Exchange and post NOC from Stock Exchange, we'll move ahead and file our application with NCLT. We expect this process to be completed by of FY22. Since approval is in process, post shareholders' approval we'll start sharing the consolidated financials of Aurore and Solara.

With a continuous strengthen in our balance sheet and a positive traction for our strategic agenda, we are well positioned to continue our profitable growth in future.

With this, I would like to invite Arun, our founders to talk about Solara 2.0.

Arun Kumar: Thank you Bharath and Subhash. Thank you everybody it's been a pleasure to join in today's call. My task today is to basically share the vision of Solara, it's evolution from Phase-1 to

Phase-2, to introduce Raj, my good friend and our Executive Vice Chairman and Head of Strategy and he would be the one who's going to be driving this business led by a strong team from Bharath and Subhash and a lot of other senior leaders in the combined entity, which will ensure that Solara is well poised to become a cutting edge and leading player in the space.

Before I start, let me share my delight in having Aditya Puri to not only join Solara on the Board but also to agreeing to Chair the Board. And, to welcome and invite Dr. Vineeta Rai, who's an eminent bureaucrat to also be on our Board. It's my duty also to thank our outgoing Chairman Deepak and Ron – our Independent Director for the stellar contributions in our early stage of growth. Having said that, and then of course we have other Directors joining in the Board today as we broad base the Board to create multiple capabilities to the Board so that we can help, support Solara build out its version two.

As the founder of Solara, it's been a great journey in the last four years where we've seen the Company evolved from a small API player with very little margins to become a very focused, highly efficient operator consequently, it's not only met but exceeded several financial goals that we set for ourselves, including having delivered a 10x market cap increase over four years of its existence. In that short period, we have become at Solara a pure play API Company with a relatively strong portfolio, with very high customer centricity and a renowned supply assurance.

It is now time for us to set ambitions high and today, I take pleasure in unveiling Solara Version 2, and of course we will take questions around not only what Bharath has reported in terms of numbers, but also if you have any questions around our vision, I just want to reiterate that this is not a guidance, this is an ambition. We normally set aggressive targets for ourselves, we normally achieve them quite successfully, and Solara ambition to be a top 10 player by default, would need that we should be a Company with revenues of at least $750 million. That means we need to move our CAGR from our current 17%, 18% to 24%. We believe our inorganic strategies that we recently announced with Aurore will help us blitz scale our business both in generic and in CRAMS combined with the wings that Solara already has in the space. And we will continue with our strong balance sheet to have an inorganic ambition as we build out this business, especially in the CRAMS space.

Our playbook is based on simple themes, which is basically grow your base generic business. We intend to launch several new products with approximately increasing our R&D pipeline to about 30 to 40 products a year from the current 10 to 12. Expand our CRAMS business organically and in-organically, but also look at other inorganic options in the generic space. We also will be focusing on newer technologies, newer products and increasing our capabilities across domains and regions. This will also include working with companies which are focused on us creating capabilities around new chemistry skill sets and offering both preclinical phase one and phase three activities and up through commercial scale. And we're investing to build all the capabilities around this.

Towards this announcing our deal with Aurore is a significant first positive step. We believe that this has already been well received by the market and our investors, and our customers. This is already leading to very significant synergies. We have appointed a Big Four, we had completed our exercise with running a Big Four in identifying all the synergies including manufacturing synergies where R&D efficiencies, right sizing, our procurement and cross selling opportunities and we have identified synergies in the range of 150 crores to 200 crores on an annualized basis. We expect this to flow through in the next 12 to 14 months. And these are not synergy numbers that we think are hard to achieve.

We believe that the API business and the China Plus One strategy is working favorably. The tailwind that Solara is enjoying will continue. We do see some blips in terms of our base commodity product demand. And that's mainly to do with COVID and to do with and the reduction of prescriptions in specific programs, and kind of destocking because with COVID there has been a fair amount of stocking we see that to be kind of balanced. But that doesn't take away anything from our indication, our indicative ideas which we presented when the deal was announced that combinedly we should still be a very strong Company and in the range of around, revenues of around 2800 crores, EBITDA in the range of 23% to 24%. And obviously this will be achieved through a combination of building more capacities, focusing on science, increasing our product filings, working on cost improvement programs, and then our people that will lead us to become a very powerful player.

So, with this, I will now request Bharath to take the floor and if there are any specific questions to me or to Raj we will be very happy to answer them. Thank you.

Bharath R. Sesha: So, Abhishek we can open for Q&A.

Abhishek Singhal: Rutuja can we open for 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 on the long-term target. Can you broadly break the four-year ambition of 25% sales CAGR into the four verticals-based business new launches, CRAMS and any future acquisitions?

Arun Kumar: So, Alankar we spoke about this when we had discussions but, we are saying that the $750 million 30% of that business should come from CRAMS which means we have to build our business which is now less than 300 crores in the combined entity, almost a $200 million business. So, the $300 million of generic business or $275 million of generic business should effectively double and it will not be right for me to tell you exactly do we know how this growth is coming to these buckets. But we believe that, by splitting the focus on product acceleration and velocity and increasing the base business and cross selling, we can achieve, we can double the generics business in the next four years.

Alankar Garude: And Arun if you could confirm that, this doesn't include any acquisitions, the 25% numbers?

Arun Kumar: There won't be any big-ticket acquisitions, there would be tuck-ins but that will not constitute more than 10% or 12% of this ambition.

Alankar Garude: Understood. The second question as far as this long-term aspiration is concerned, if I look at the margin guidance, 23% to 25% it's lower than what the combined entities margins are currently. And on top of that, we'll have those synergies of 150 to 200 crores, plus in general if CRAMS grows at a higher pace that should also aid our margins. So, why are we being conservative and what's the reason for this 23% to 25% guidance or aspiration?

Arun Kumar: Well, it is not that we do not aspire to have a higher margin, but it is simply that, we believe that there would be a fair amount of organic expansion in capacities leading to some element of under recovery on a constant basis in the next three to four years. Especially if you want to build a CRAMS business you have to build capacity ahead of customer conversions. So, we have adjusted for that.

Alankar Garude: Okay. So, that is the main reason no other reason why the margin guidance is lower than what guidance?

Arun Kumar: Margin guidance Alankar is in line, but if you adjust for the fact that you cannot be in the CRAMS business without having the infrastructure ahead of business.

Alankar Garude: Understood. And maybe one question to Arun, before I get back in the queue. Arun in the past, you have created your stake in Solara as more of a financial investment. And now with you joining the Board, so can you take us through what have been the triggers to take this decision of joining the Board now, when you could have done it earlier as well?

Arun Kumar: Well, good question. Well, that I typically don't do this, I had to make some exceptions, because of the new arrival into the Board, there were some ask, because the vision of getting somebody like Aditya Puri interested to come and share our Board was based on the vision that I articulated and it's something that he wanted me to stick my neck out and execute you understood what I mean, so I continued to have a Non-Executive role, between Raj, and Bharath and rest of the team we have a phenomenal leadership team. Raj comes with deep entrepreneurial insights and he has a lot of experience around this business. My reason for getting onto the Board of Solara is more to do with getting a broader Board interested. And, I'm very happy with what Solara has delivered for us as investors and they will continue to do that. But, I do not have an operator role. I can continue to be a Non-Executive, but I will obviously be available and I also don't intend to come on our investor calls, this is because it's more a major milestone day for us in terms of our Board reconstitution, but also in terms of what we are unveiling as our vision.

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

Sriraam Rathi: Sir one question on the regulated market business, you mentioned that it is because of some demand pressure in some of the product including Ibuprofen, so the revenue figures include very, very low at 120, 180 crores. So, which other products would have impacted and at the same time those were also some impact of the temporary shutdown that we took?

Bharath R. Sesha: So, in the regulated market, products that were impacted were, products that are used for treatment of seasonal flu, and similar such products that we have in our portfolio, as I said the most impact was on the base products. And that's kind of where you saw the biggest dip in terms of demand, due to this and sorry there was some disturbance in the line, I did not get your second question. If you could repeat that would be great.

Sriraam Rathi: Sure. I was just asking because the figure looks very, very low. So, is there something which hasn't deferred from this quarter to the next quarter or something like that and we will be back to normalize run rate. And what I'm noticing is that, from the last two quarters the proportion of regulated market is decreasing and at the same time non-regulated market is increasing significantly. Is there some change which has happened on some of the markets just to get an idea?

Bharath R. Sesha: No, I don't think there is anything structurally changed, the simple way to look at it is, when there were lockdowns across the regulated markets, which were complied with broadly, less people were going out, which meant less people had sprains and aches or other needs to get any of these medications, either OTC or otherwise. So, there is nothing structurally that has changed in the market. This is all situational and caused by the blip that we see. Now, we've also very clearly indicated in our commentary that we expect three to six months for things to normalize, because every time that you see that, different geographies are dealing with the second wave or the third wave depending on where you are at different levels. So, nothing structurally has changed, it's situational, situational brought about by the pandemic. And we expect this to normalize in the next three to six months and reiterate our position with all our key customers in the regulated markets are as strong as ever. So, as the demand comes back, we will benefit from it disproportionately.

Subhash Anand: Just to add what Bharath just said. It's double impact, there was less demand because of less injury, less people going out. In addition, a lot of customer have built up their inventory during wave 1 of Covid. So, this was the time when they started de-stocking, that also has led to lower off take and impacting the revenue of regulated market of Solara.

Sriraam Rathi: Okay, got it sure. And also, if you can just provide some details in terms of, how is the practical scenario now, versus FY21, for the production, I believe we have largely long term contracts for the industry and for the business which are not long term in nature for us. so, how has pricing moved over last two, three quarters?

Bharath R. Sesha: So, some of our base products there is stability, I wouldn't say that it's across the board there is pressure, but one of the consequences of demand stress is rising pressure and these are particularly intense in spot markets where we have typically not very active. For our contractual customers and the larger customers, I would say there is no significant pricing pressure or anything that would be not mitigated by the right actions. However, there will be some reduction in pricing that we see this year, which is normal year-on-year that we would see in part of the overall contractual discussions, that would happen. How the demand evolves, and how the demand picks up will dictate the intensity of that and the longevity of that.

Sriraam Rathi: Okay, sure got it. And lastly one thing, this contribution from new products has increased considerably this quarter, if you can provide some details in terms of which are the products which have been benefited, which are the large products now in that category?

Bharath R. Sesha: So, we typically don't break it into a product name level, but broadly speaking, as we've introduced quite some products over the course of the last six months, and we also did at the last quarterly call I mentioned that we had also, quickly turned around already in quarter one, sales of Favipiravir in the second wave was at peak in India. So, all of these contributed and helped the growth of new products to reach the levels of 20% of revenue in quarter one.

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

Tushar Manudhane: Just to like to understand that further like, with the margin improvement because of the backward integration, and at the same time, there have been some softening of Ibuprofen prices. So, how do you see the profitability on the product going forward, and the lowering of Ibuprofen prices has that first impact in the 1Q FY22 numbers?

Bharath R. Sesha: So, the second question first, if I would answer, see the way we have been able to mitigate because some of the forward pricing that we had towards the end of last financial year, we were able to mitigate from the pricing pressures in quarter one. However, as we said, as demand normalizes in the coming three to six months, there will be some impact of the pricing pressure in the current quarter. The backward integration will go a long way in not just ensuring that we're able to manage our margins in Ibuprofen well, but also to anchor our position as the only player I would say in the market currently, who has a scaled business when it comes to Ibuprofen derivatives and has full backward integration. So, that positions us in an entirely different framework with our customers and gives us the opportunity to continue to grow our Ibuprofen business in the coming years. And to talk about the margins, the backward integration will offer us relief in the second half of the year in terms of any potential market impact.

Tushar Manudhane: Got it. Secondly on the CRAMS business, given the current size of the business, when do you see the significant take off happening or rather qualitatively if you could just help us understand where do we stand let us say from the innovators perspective at the contract research stage or contract manufacturing stage?

Bharath R. Sesha: So, most of our CRAMS is in contract manufacturing, some contract development. We don't do yet a lot of hardcore contracts research, but having said that, our visibility as I said is very positive. We start getting very interesting opportunities with big pharma companies across the spectrum. And we are very delighted to see that our positioning in this market, where we talk about the fact that we focus on solving top chemistry challenges, where science is a differentiator, it's no longer about cost and capacity alone in CRAMS, it's about what do you bring on chemistry. So, the third thing is what we are focusing on the chemistry. And that's leading to the benefits that we are starting to see in this business. As you've seen in this quarter, we've grown well, we have added new customers, pipeline strong, conversion ratios are getting better. So, going back to your comment on qualitative metrics, it's all pointing in the right direction. And that gives us the confidence to guide, what I said earlier, that we see visibility to grow 50% year-on-year in our CRAMS business this year.

Tushar Manudhane: Got it. And if you could just share our financial for 1Q, proforma sales, EBITDA, PAT for the quarter?

Subhash Anand: In fact, in my opening remark the way we communicated, we will wait for shareholders approvals to be in place before we start sharing our number. So, let's wait for a couple of quarters before we reach that stage and start sharing.

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

Kunal Randeria: Sir my first question is on long term guidance. I know you've covered it a bit, but just trying to understand, a bit better on what gives you confidence to give such a strong four-year guidance. Are you entering into a more long-term contract, or do we expect a lot more niche approval, which can give you a lot stickier revenue stream? We are just trying to understand this, a bit more.

Arun Kumar: Okay, so let me answer this Arun here. A lot of it comes from the Aurore table. Remember that Aurore has got a little over 20 DMFs already filed, customers engaged already site changes and source changes are happening. And based on their order book that will support accelerate our generics business.

Kunal Randeria: But Aurore would be more like CRAMS business, but that would only be 30%?

Arun Kumar: Aurore has got out of the 550 odd crores, 400 crores of generics and 150 crores of CRAMS last year.

Kunal Randeria: Okay, fair enough. Second, Arun you also mentioned that there's a lot of infrastructure investment in this business. So, can you elaborate a bit more on that what kind of investments, human capital, plans that you look to do in the next three, four years?

Arun Kumar: That is nothing to do with CRAMS, an inorganic strategy around CRAMS is almost impossible given the multiple CRAMS business trade today. And stress assets means that you do not get high quality customers with it. Now that the two companies have close to about 300 crores of CRAMS, and CDMO business is combined business, we believe we need to invest very heavily in new infrastructure, and new technical capabilities, in new chemistry capabilities to attract potential customers in the CRAMS space or enhance our portfolio of customers. So, typically, in the CRAMS business, as you would know from the competitive landscape, you have an under recovery for two to three years. And you also build specific bespoke assets for the CRAMS business which is very different from generics. So, we would have investments in that space, in the next two to three years. And it typically takes two to three years for the business to completely play out. So, if we are doing today, a 300-crore business in France, it typically means that you're building a fairly strong order book for three or four years assuming that 40% or 50% of the programs that you're currently engaged, will see success if it's an NCE product or the customers happy to move you as a second source or a primary source. So, typically, in this business, all players of size and magnitude invest very heavily upfront. And we are in that phase. So, that's what I was trying to articulate.

Kunal Randeria: Sure, but can you sort of quantify the kind of investment would it be possible?

Arun Kumar: Early we have the ability, especially in Vizag to carve out a lot of capacities, because we have a lot of land and the utilities and infrastructure, but it's a little too early, probably when the CRAMS play out we can address these questions in about six months with a lot more clarity.

Moderator: Thank you. The next question is from the line of Aejas Lakhani from Unifi Capital. Please go ahead.

Aejas Lakhani: First query is, could you tell us about the amount of goodwill that will come because of the books, because of Aurore?

Subhash Anand: In fact, we are in consultation with experts and expect this transaction to be a common control transaction and if we go with that route then this will be a merger at a book value and will not result in any goodwill getting created. This is the approach on which we are working, we yet to get a conclusion on that, but this is what we expect will be the final position for us.

Aejas Lakhani: Okay. And by when will you get clarity on the same?

Subhash Anand: After NCLT approvals, on all the questions which are put forward in our merger applications will get answered.

Arun Kumar: Yes, but we are confident that we will achieve it.

Aejas Lakhani: Okay. My second query is that, in your annual report you have mentioned the unrecognized tax losses of about 540 crores. So, would you say that we will have no actual cash tax payouts for the next two to three years, is that a fair assumption?

Subhash Anand: This year we are confident will not have any taxes expenses and we will continue to be a MAT paying Company for next couple of years. Position on Tax expense will be depending on how our next couple of years profit comes out and impact of carry forward goodwill. The situation will become clearer in coming time.

Aejas Lakhani: Got it. And I just want to ask you that the last, so we were looking at your last three-year DMF filings. And what we noticed is that, about 65% to 70% of the molecules have less competition. And the 25%, 30% have a little more higher competition whether there are say 25 players. So, could you just mention what is the average market size of these molecules for the ones which have less competition and the ones which have competition, thanks.

Bharath R. Sesha: So, it's very difficult to paint that with a broad brush, so when you are choosing molecules and a standalone Solara, but also has emerged combined entity going forward, we do look at competitive intensity, we do look at our ability to differentiate from a chemistry science perspective. So, it would be very difficult to give you one estimate for every molecule that we choose, but the one thing I can confirm is that when we choose a molecule we have found a way to or a right to win in that molecule which we see scalable, growable and profitability. So, that's kind of the way that we go through our product selection process.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Bharat, this question is for you. See when we are going for Ibuprofen a backward integration because it is a very large product for us. So, we can really create a niche for ourselves by being a most competitive player. So, taking a larger volume through a few products vis-à-vis smaller molecule, number of products. So, what will be our strategy going head, because in smaller molecule the asset turn will be comparatively lower?

Bharath R. Sesha: So, we have a very balanced portfolio of products already. And with the addition of the portfolio of products from Aurore, we have 100+ products which are a good mix of what you would call higher volume products, to what you would call lower volume, but very accretive on margins and with large customer stickiness. So, that balance will continue, so we will have both types of products in our portfolio. As was articulated in the presentation and what Arun said earlier, we have a very strong ability to continue to win in the base molecules and we will as we increase our R&D velocity and bring new products with differentiation to the market and be successful there. So, for us, it's not an either or it's and, we will do both and we will do both successfully and the balance in the portfolio will always be between the two.

Bharat Sheth: And second question, you have been talking about this new technology platform and new chemistry. So, can you elaborate a little more as well as how we are evaluating this continuous manufacturing with the micro reactor and all we are evaluating?

Bharath R. Sesha: Yes, that is one of the tech platforms that we are working on. There are others such as enzymatic and then we are looking at high potency also as a technology platform, and complex generics and all of these are things that we are working currently on, as I said at least to have this we will have this ready to scale by the end of this financial year. All of these we believe we bring to both CRAMS and generic APIs which gives us a differentiation and a scientific capability to grow our business with good margins.

Bharat Sheth: Okay. And how that will improve asset turn or anything?

Bharath R. Sesha: See, as and when we are bringing new products and as and when we scale them up on the pure generics business the asset turn will continue to be improved based on that. And that kind of a strategy that we use, we use that as one of the metrics we choose to look at which products picked and which asset and part of this synergy identification, there has been a lot of deep dive into this exercise to make sure we have optimal utilization of capacity across both networks and soon to be one network with asset velocity, asset turns being one of the criteria we using to slot molecules.

Bharat Sheth: And last question, Arun and his remark says that because we want to grow CRAM very aggressively, so, we need to invest and create a lot of infrastructure ahead of really, we can take the benefit of this whole CRAM space. So, how much CAPEX are we when we are looking for a 25% CAGR growth, we are planning?

Arun Kumar: Bharath is that for you or for me?

Bharat Sheth: So, overall either, but Arun you said that we need to create a lot of infrastructure in advance to take CRAMS business next level?

Arun Kumar: Yes. See, currently the Company has been investing about 200 to 250 crores of CAPEX per year, we think that kind of investment will continue for at least another two to three years. And that should then solve for all our capacity needs, including the CRAMS and the generics business.

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

Tushar Manudhane: Just one clarification on FY22 guidance of 2800 crore, any opportunity one off built into that or this is more like the sustainable run rate to perform?

Arun Kumar: It is sustainable, both companies do have very specific COVID products. We believe COVID is here to stay for at least two to three years. So, we are not suggesting that there are any one offs, but there are potentially several newer molecules that are being repurposed for COVID. So, we are with 150 odd products in the combined entity, we will always have some COVID opportunities. But, we just don't believe that COVID is going away in three months or six months it's something here to stay. And we'll have to solve for the challenges for several years. There is an uptick, both at Solara and Aurore for specific COVID products, and there's a downtick for products which are not like for example, in the acute care the demand worldwide, the businesses dropped between 10% to 15%. So, once the stocking happens, we do see some pressure on demand, but with newer products in the chronic space, and in expanding markets, we always are able to manage this business quite well. So, I wouldn't say that there is a specific one-off contract which is not sustainable, maybe the portfolio changes but if you have 10 COVID products, one product will be in season in this quarter, another one will be in season the next quarter. But overall, we should be able to maintain a certain level of comfort around the numbers that we are guiding.

Moderator: Thank you. The next question is from the line of Karan Sorana from Monarch Aim**.** Please go ahead.

Karan Sorana: Just wanted to ask the update on the FDA inspection for our plant and what kind of capacity utilization are we targeting for FY22 and target capacity utilization for the same part in '23. And with non-regulated markets in our portfolio now, what are the receivable days we thought of looking at if we can get some color on that will be great, thanks.

Bharath R. Sesha: So, let me start with the update in Cuddalore. So, we have currently completed all our actions on time. And we believe with the right corrective and preventive actions in place, we have also sent communication and we continue to engage with the U.S. FDA and we are eagerly awaiting their presence to audit the facility for a reclassification. And we will find out whenever they are ready to do so. But we are ready, and we have been for some time. Then coming to capacity utilization.

Arun Kumar: Bharath, Arun here. Just to point out rather magnify, the facility was inspected by European authorities very recently and got an approval, we should all remember that this specific OIA was related to the NDMA in Ranitidine and nothing to do with the quality systems related to the organization. We are confident that we have addressed these matters. It is also important to know that CEP for Ranitidine has been reinstated in Europe. So, we think this is more to do with travel restrictions and we do hope, like Bharath mentioned that this will be behind us in a very, in an expedited manner. Bharath I hope I'm right with my assessment.

Bharath R. Sesha: Absolutely Arun. The restoration of the CEP is a validation of the fact that we've done all the right things, so yes. Coming to the capacity utilization, we expect that it will be in the late 80s, early 90s like it was last year. As we talked about earlier, we have the flexibility through multiple products and most of our facilities and that gives us the opportunity to have high capacity utilization as we go forward. So, FY22 we see similar capacity utilization, as we saw in FY21. And as Arun had already talked about in the vision commentary, as we build the capacities to support particularly our CRAMS, this utilization number may vary depending on when the capacities are coming on stream and when they get fully utilized. But for now, as we see the visibility for FY22 it's going to be very similar to FY21, late 80s, early 90s capacity utilization.

Tarun: And above the receivable days, if we can get some color on that?

Subhash Anand: No, in fact we already spoke about increasing working capital. Currently our receivables are around 115 days.

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

Nitin Agarwal: Arun there are couple of points. If I heard it, right you mentioned CRAM should be 30% of the revenues by FY25?

Arun Kumar: Correct.

Nitin Agarwal: And secondly, so if you just take that as a sort of goalpost. The revenue guidance we put out obviously is interesting. The margin guidance is obviously underwhelming, and you obviously look through the fact that, there is a degree of under recovery on the CRAMS part of the business which is going to be there. At a point in time, maybe year, two years out from post FY25, ones probably this under recovery situation corrects itself. You're assessing what is the potential of the business model, the possibility of this model, in sort of sustainable profit perspective?

Arun Kumar: We have obviously guided the EBITDA margin with a sense of caution. Remember the business has grown from is 8% EBITDA to where it is today, in the last four years. We believe that the need for pure play players will be important and it will be fair to assume that the margins can be adjusted upwards between 3% and 4% if we get all our math right, but it's always better to **be** on the side of caution and that's why we have put that range.

Nitin Agarwal: And more philosophically at some level, business like this with the kind of mix which is there between CRAMS and API that we are envisaging, this is operating out of India, the dynamics which are there what is 40% EBITDA margin of possibility in this business or is it possible that the business model like this can deliver even margins north of 40%?

Arun Kumar: I think it's possible, companies who have been in the space do that. And there are other companies who have been recent entrance but have completed the capital investment phase. Over the last four or five years have also delivered significantly and OPEX leverage. So, for us, from a CRAMS ambition we would be agnostic on where we are domiciled, we believe that we would be international from, at least in certain capabilities that we may not be comfortable doing and also in terms of customer acquisition, sometimes we will do some bolt on, which will be outside of India. But, it will be fair to assume in a steady state the 30%+ business on a combination like ours, would be quite reasonable to expect.

Nitin Agarwal: And secondly on the API business growth that we sort of envisage over the next three to four year, obviously it will be a mix of both existing products going through as well as new products coming through, is there a higher weightage in these two segments in terms of it's going to be more driven by new product launches, or more of legacy products are growing?

Arun Kumar: See, it will always be a combination of the two, cross selling on this is a very big uptick. As you can see, we are guided next year for an incremental revenue of at least about 200 crores cross selling products 150 to 200 crores in that range. So, that obviously will be a very critical element in this synergy. But more importantly, it's a portfolio considering that Aurore has got as like I explained earlier to another question, that we have ceded several of our customers. And we have a very solid order book on many of the DMFs that are being filed, and they are all very special DMFs. So, either if it's a commodity DMF being a late entrant, we've been able to set our customers by cost leadership using new technologies, and semantic rules wherever applicable to get our costs lower. But more importantly, on the more niche products. Where in the middle of the pyramid we add a lot of products which are not necessarily focused on asset turns, but focus on high gross margins, potential profit shares with the formulators because of the number of DMF are very few. The combination plays out very differently and you will see bulk of that coming from that strategy.

Moderator: Thank you. Ladies and gentlemen in interest of time we will take last two questions. The next question is from the line of …. Please go ahead.

Participant: Just one question, can you provide the breakup between API and CRAMS for this quarter revenue breakup?

Bharath R. Sesha: So, CRAMS was in the late single digits as a percentage for the quarter.

Participant: Alright. And when you say that you've added four customers in CRAMS, are these mainly for the late stage or are these for lifecycle management products?

Bharath R. Sesha: So, it's a mix, some of them are late stage clinical, some of them are in the early stage clinical's and some of them are products where they're looking for a second or an alternate route of synthesis or source. So, it's a good mix of projects we have got with these new customers.

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

Alankar Garude: Firstly, sir was there a meaningful contribution from COVID-19 drugs for Aurore in FY21, because if we look at the year-on-year jump in EBITDA in FY21 referring to the MCA data for FY20, the jump seems quite high?

Arun Kumar: Yes, you're right. We did disclose that we were a significant player in the Favipiravir place, we were an important player to the innovator, we did disclose that. We continue to have developed a whole suit of COVID products that are all and we are an important player in all the new repurposed drugs in COVID. So, there's no product that we don't make.

Alankar Garude: And Arun, is it possible to comment on the sustainability of the 175 crores of EBITDA which Aurore did in FY21. So, you feel confident of, or Aurore feels confident of growing that number?

Arun Kumar: So, we did guide you then that the EBITDA sustainability must be assumed at 150 crores because we did get a COVID bump last year. But we are very confident of growing that at a faster tick than the Solara business because of the regulated market filings that have been completed and customer onboarding that have happened.

Alankar Garude: Understood. And my final question is again on Ibuprofen backward integration, so just wanted to understand what led to this decision to backward integrate now, after so many years and will we follow a similar strategy for some of top10 products, where we are.

Arun Kumar: I am addressing this so far in the interest of time, we took this decision to backward integrate 18 months ago, there were reasons of confidentiality and various other reasons that this is not in the public domain. It was not a material invest; it is a material investment from our aspects. But we are as Bharath said, getting into validation of a fully integrated Ibuprofen player this quarter. So, you can't build a plant in three months, this was a 12- or 14-month facility built out. It's one of the largest facilities and not only does it cater to our needs, but we can also sell the intermediates to other Ibuprofen manufacturers. So, we knew that if demand constraints were, if we had headwinds, and we were in this business for 30 years, it's a very different Company from what we were in Ibuprofen 30 years ago. One is we've got almost all the marquee customers, brand owners we are partnered with them, our Ibuprofen program was pre ordered and pre-advanced by one of the biggest Ibuprofen consumers in the world. So, when we went into becoming a stronger player in the space, we decided and to be sure that we were fully integrated. And it was something we took 14, 15 months ago, a decision is just playing out now. And that will ensure that we continue to meet volumes and still give a reasonable, absolute gross margin or EBITDA on this program going forward.

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

Bharath R. Sesha: So, once again, thank you everyone for joining in these times where we are all dealing with multiple things. Wish you again the best of health for you and your loved ones emphasizing a few key points now, I hope that we've been able to paint a good picture of the fact that we have a very strong vision that's guiding our journey going forward for Solara 2.0. Reemphasizing also the point on the fact that the base demand that we talked about for the products in the base portfolio is situational. Structurally, the market remains the same that it was six months ago, and we're well positioned to benefit when the demand comes back and grow profitably as we have done in the past. Thank you once again, take care, stay safe.

Arun Kumar: Thank you all.

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