"Solara Active Pharma Sciences Limited
Q4 FY2019 Earnings Conference Call"

May 16, 2019

MANAGEMENT: **MR. JITESH DEVENDRA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - SOLARA ACTIVE PHARMA SCIENCES LIMITED**
MR. HARIHARAN – EXECUTIVE DIRECTOR & CHIEF FINANCIAL OFFICER - SOLARA ACTIVE PHARMA SCIENCES LIMITED
MR. ABHISHEK SINGHAL - SOLARA ACTIVE PHARMA SCIENCES LIMITED

Moderator: Good day ladies and gentlemen and a very warm welcome to the Solara Active Pharma Sciences Limited Q4 FY2019 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode. 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. I now hand the conference over to Mr. Abhishek Singhal. Thank you and over to you Sir!

Abhishek Singhal: A very good afternoon and thank you for joining us today for Solara's earnings call for the fourth quarter FY2019. Today, we have with us Mr. Jitesh, Managing Director & CEO and Mr. Hariharan, ED & 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. 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 may be viewed in relation to the risks pertaining to our business. At the end of this call, in case you have any further questions please feel free to reach out to the Investor Relations team. I hand over the call to Jitesh to make the opening comments.

Jitesh Devendra: Thanks Abhishek. Good afternoon everyone. We welcome you all to Solara's Q4 and full year FY2019 results call. We are delighted to have delivered a stellar growth both in revenues and profitability for the first full year of Solara's operations. Consequently, the board has declined a dividend of Rs.5 per share.

In the interest of time, I will not dwell into the financial highlights, which I assume you would have received through our communication set. I would like to share my perspective as to how the year fared for us strategically and as to what priorities we have set for us in FY2020.

On the business front in FY2019 the revenue growth we witnessed was a combination of base business and four new launches we had in FY2019. The increase was primarily on the expected lines and we continue to remain upbeat on the momentum. Our execution and initiatives around the same were on track as we have completed the integration of the two demerged API business as well as the Ambernath business, which we acquired from Strides. All our facilities now follow universal framework on systems, quality and compliance that we have built and improved over the period.

As a testimony to the same, this year we underwent three US FDA inspections and one inspection from the Korean authorities. Our rigor on regulatory compliance resulted in two zero 483 inspections by the US FDA.

Our R&D programs focused on two-pronged strategy of new product development and efficiencies remain steady as we increased our total R&D spend by four times over the previous year. Our Continuous operational improvement program, which we initiated in FY2018 has contributed in some part to our EBITDA while on the new product development we have filed 9 new DMFs across various geographies including extending our existing products to new markets.

Overall besides focusing on growth we remain cognizant of the financial discipline, the result of which also be noted in the net debt to EBITDA indicator which now trails below 2 as against 4 during the beginning of FY2019. Return on capital employed also improved from 8% to 14% in FY2019 and asset turnover is at 1.6x.

Moving to FY2020, we continue to stay positive on the industry opportunity and invest in capabilities and capacities for future demand. We are pleased that the promoters and the lead investor TPG has shown confidence in strategies and has committed a significant amount for the growth going forward. We are happy to have Ankur Thadani from TPG Growth join the Solara Board.

We would like to highlight some of the key focus areas for FY2020. The project status of upcoming multiproduct multipurpose Greenfield site in Vizag is on track and we are expecting the site validation to commence towards the end of FY2020. One of the nuclei of FY2020 will be the continuous operational improvement program. Our focal point of success remains in our execution and our theme for FY2020 is ***"Growth through Efficiency",*** which is one of the core values of Solara.

Our performance of full year operations reflects our ability in building a sustainable business and we remain confident of the opportunities lie ahead of us. Thank you and we are now open for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Vaibhav Gogate from Ashmore. Please go ahead.

Ashwini Agarwal: Congratulations, good set of numbers, great to see this report. Just focusing a little bit on fiscal 2020, how much capacity is available to you through the year because I am assuming that if validation from Vizag will start towards the end of 2020 that facility cannot contribute to revenues till may be at least another six to eight months from the end of fiscal 2020, so in the interim, which is next 18 to 20 months, where will the growth come from, do you have enough capacity, are you going to run into some capacity situations, is that concern at your end that is one question and the second one is volumes and prices, if you could help us understand how much of the growth, of 35% revenue growth that we are seeing came from volumes versus prices and how do you see that equation progressing going ahead?

Jitesh Devendra: Thank you for your comments. On the first question in terms of the capacities, so our growth is going to be driven by the capacity utilization at our Ambernath facility, which we acquired from Strides last year. That is one. And second is as I mentioned before that we continue to invest in the operational capex to debottleneck the capacity constraints, so that will help in terms of growing our base business, so we do not see any issues in terms of the capacity constraints for the FY2020. We have been proactive to invest in Vizag and that is also backed up with customer commitments and it is a multipurpose API facility. On Q4 FY2019 on the revenue part the growth came from 8% was contributed by the base business and 1% came from new products. Overall, for the year the base business grew by 30% and 5% came in from new product Ashwini.

Ashwini Agarwal: But that is volume and price, so what I am trying to understand is how much is tonnage versus how much is price gains? Is there some sort of benchmarking, I know you do not declare product wise details, I am not asking for that, but I am just trying to get a sense that if pricing improvement a contributor to revenues and what is the outlook going ahead on that?

Jitesh Devendra: Most of the increase came from the growth in the volume and we also had the price increase, but majority was driven by volume Ashwini.

Ashwini Agarwal: That is what you would expect for the coming year as well?

Jitesh Devendra: In the coming year also, we have planned for at least two new launches and as I said the Ambernath facility, which underwent the US FDA inspection in early part of the year in January where we had no 483 inspections, so we expect some new product launches from Ambernath.

Ashwini Agarwal: And one related question here is that you have seen this, you have probably gone through the list of the products on which US will impose this additional 25% duty that list came out I think yesterday or day before, is there anything in that chemicals list, which runs into some five pages that helps Solara in anyway?

Jitesh Devendra: We must study and come back, but we do not see any impact per se. We must study that list and we will have a better detailed answer during our next call.

Ashwini Agarwal: Thank you so much. I will come back with more questions.

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

Cyndrella Carvalho: Thanks for taking my question and congratulations on a good year. We have touched around 1400 Crore topline and that is something makes us feel good, so you just highlighted that around 30% growth has come from the base business and you also highlighted that it is largely from the volumes, so what is your expectation on that going ahead over these two years that you expected to sustain?

Jitesh Devendra: The business what we have generated in FY2019 is just are not one-off businesses and going forward we remain confident in terms of the business what we have built and the opportunities which lie ahead of us. Given that we are in a growth phase, we do not want to be confined to any kind of guidance.

Cyndrella Carvalho: I understand that, but your expectation is to sustain the volume growth, I am just asking some comment on that because since our base in our business is slightly skewed towards some bigger products, older products, so hence I just want to understand what is your view there?

Jitesh Devendra: Of course, you know 30% is a big growth in FY2019. We continue to remain positive that we will have a healthy growth rate going forward.

Cyndrella Carvalho: In terms of how is the capacity utilization at Ambarnath speeding up and what is the status there?

Jitesh Devendra: Today out of all of facilities Ambernath is underutilized from its capacity and I talked about it before, so we expect Ambernath capacity utilization to be improving compared to the FY2019, given that we are going to have some new launches from Ambernath site.

Cyndrella Carvalho: We are targeting two launches this year, right?

Jitesh Devendra: Yes

Cyndrella Carvalho: Okay. I will get back to the queue. Thanks.

Moderator: Thank you. Next question is from the line of Tushar Manudhane from Motilal Oswal Securities Limited. Please go ahead.

Tushar Manudhane: Sir with respect to the base molecules the top 10 products, which forms 78% of the revenue. The top 10 products, which accounts for 78% of the revenues where do we stand in terms of market share?

Jitesh Devendra: So, on the top 10 molecules what we have a sizeable market share and we are not just dependent on one market because most of these products we sell globally.

Tushar Manudhane: Globally, I mean to check in terms of the market share on an overall global basis?

Jitesh Devendra: It is very difficult to say by market and what does the market share we have, but as I said these top 10 molecules, which contribute to 78%, so we have a decent market share for the prices what we are selling at.

Tushar Manudhane: No Sir, trying to get a sense of, is there any further growth possible because of gaining market share or we are at a stage where market share gaining would be relatively difficult and so whatever the demand growth is there that is what will drive the business?

Jitesh Devendra: The way we are looking at is to focus more on the product mix what we have rather than go after the market share or after volumes.

Tushar Manudhane: Could you give us some idea about these two launches, what would be the market size both in terms of volume and value?

Jitesh Devendra: So, I will not be able to give you a specific number to that, but you can say that one launch which we are going to be having from the Ambernath site will be a significant capacity utilization for Ambernath.

Tushar Manudhane: But the market value wise if any sense on that?

Jitesh Devendra: No, we do not give value wise for product.

Tushar Manudhane: No, I am asking for the market size, not for the Solara's business?

Jitesh Devendra: So, the way we are looking at it the new products like in FY2019 contributed to 6%, we are looking at of course introducing new products and that 6% could go to even probably 10% to even 15%.

Tushar Manudhane: Just on this Vizag facility tentatively what would be the payback period for this investment?

Hariharan Subramanian: This is a long-term project and in phase 1 we will be investing about Rs.250 Crores over a two-year period and payback period will extend up to four to five years.

Tushar Manudhane: Okay Sir. Thank you.

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

Kunal Randeria: Good afternoon and congratulations for a very good FY2019. Jitesh, I was trying to understand the capacity issue a bit more, so you said asset turns are 1.6x we should not be facing capacity issues, now does this then imply that we have some very niche, higher value, low volume kind of products going into FY2020 to drive growth?

Jitesh Devendra: Thanks for the comments. Yes, as we are introducing these new products we are looking at these niche molecules low to mid volume, which have a higher realization.

Kunal Randeria: So that should be monetized now starting FY2020 itself right and not a longer-term time, right?

Jitesh Devendra: As we are developing new APIs we are going to see the sales from the validation batches, so that is one of the drivers for FY2020.

Kunal Randeria: Secondly on just to understand a bit more on the debt side, so it is mentioned in the presentation that 70% of this Rs.250 Crores capex that we are doing over a period of two years that will be funded by debt, so will a gross debt still remain the same or probably in the short term go up a little bit?

Hariharan Subramanian: Overall, we are confident that the debt to EBITDA ratio will be less than 2.

Kunal Randeria: Fair enough, but there is an absolute number?

Hariharan Subramanian: We will not able to provide you the absolute number and the debt EBITDA ratio it will be less than 2.

Kunal Randeria: Last question if can squeeze one more, so on the gross margin front, we saw on a quarter-on-quarter basis, there is a bit of a decline, so I would have thought that WHO and RoW not performing as well as US and Europe, should not we have actually seen slightly an improved or at best flat kind of a gross margin Sir?

Hariharan: Gross Margin reduction in this quarter is mainly due to product mix change and one-off provision

Kunal Randeria: Yes, and any reason for this provision?

Hariharan Subramanian: No this is normal inventory position in the year-end

Kunal Randeria: Right. Thank you for taking my questions and all the best.

Moderator: Thank you. The next question is from the line of Arif Ali from First Global. Please go ahead.

Arif Ali: Thanks for taking my question and congratulations on a great set of numbers. Just couple of questions. One is to do with your R&D investments for the foreseeable future next two, three years if possible you could just elaborate, how much investments do you foresee on the R&D side?

Jitesh Devendra: On the R&D side, in FY2019 we had spent about close to Rs.40 Crores, so we do not see any significant increase from the cost base what we have right now.

Arif Ali: Rs.40 Crores for FY2020 and perhaps the same or similar amount for FY2021?

Hariharan: Yes, similar around those lines.

Arif Ali: And do you book it into P&L, all of it or some of it is capitalized, what is the sort of typical split?

Jitesh Devendra: We do not capitalize.

Arif Ali: It is all taken to P&L, that is accounting and that is good to know and so your current ROCE if I heard correctly is about 14%, what is the sort of target ROCE once your new product launches are in the market you have undertaken significant R&D investments, but those would take few years to reach market, but once they are due what sort of target return on capital employed do you have?

Abhishek: Arif, if you analyze our fourth quarter EBITDA and look at our ROCEs we are already annualizing at around 18%, 18.5% in that range. So yes high-teens is something which is very much possible.

Arif Ali: So, can this Q4 ROCE be taken as the new base for FY2020?

Abhishek: So it is not the right way to look on a quarterly basis, but I am just giving the potential per se, if we can do at in one of the quarters that possibly as we go ahead annualizing that would be possible whether that is possible next quarter or three quarters down the line, it is very hard to kind of look at our business on a quarterly basis, but yes the potential pretty much exist on a high-teen ROCE for this business.

Arif Ali: Sure, and one last question if I may, what is the sort of the split between the growth and the maintenance capex because you are taking a significant Greenfield expansion growth capex, so taking that into consideration, let us say FY2021, what should be a maintenance capex and growth capex on an ongoing basis just a ballpark?

Hariharan Subramanian: We are maintaining that Rs.100 Crores as our normal maintenance capex, which includes Rs. 60 Crores for the capacity adjustment and Rs.40 Crores for the regular maintenance capex.

Arif Ali: So Rs.40 Crores for maintenance on an annualized basis?

Jitesh Devendra: Annualized basis correct.

Arif Ali: And Rs.60 Crores as the growth on an ongoing basis the Rs.60 Crores every year, but that will likely to go up is not it and the maintenance capex will also go up eventually, you cannot be stagnant at those levels?

Hariharan Subramanian: We are estimating Rs. 100 Crores growth and maintenance capex excluding new facility at Vizag.

Arif Ali: All right, so yes, that was my question actually because once the Vizag phase one, so it is multiple phases we appreciate that, so phase one coming live, you would have to maintain that, so going forward I reckon your maintenance capex will have to increase so Rs.50 Crores, Rs.60 Crores or Rs.70 Crores may be after few years?

Jitesh Devendra: Consequently, we will have the growth in revenues.

Arif Ali: Correct, that is for sure, but I am trying to understand how much free cash flow could the business be generating in let us say two to three years down the road, that is exactly what I was trying to get to? What is the free cash flow generation for FY2019 please, I might have missed that in your presentation?

Hariharan Subramanian: Estimated free cash flow in FY19 is around Rs.90 Crores.

Arif Ali: Rs.90 Crores is free cash for FY2019?

Hariharan Subramanian: Yes.

Arif Ali: Can that grow about 15%, 20% year-on-year, is that what you aim for?

Hariharan Subramanian: We will not able to provide any guidance for the future, as Jitesh indicated. We are working towards for taking all the opportunities for the growth.

Jitesh Devendra: But we remain positive of the opportunity Arif. We will not be able to provide any guidance.

Arif Ali: That is good to hear. All the very best for FY2020. Thank you.

Moderator: Thank you. The next question is from the line of Gargi Sharma from Sea Link Capital. Please go ahead.

Gargi Sharma: Good afternoon. This company has been undertaking some steps to reduce third party supplier dependent side, so I just wanted to ask what is the status of one, the backward integration and even within the supplier base for the intermediates and the other raw materials, how much is the dependence on imports and what is China as a percentage of that?

Jitesh Devendra: We import nearly 30% of our input from China and that is the status as of now.

Gargi Sharma: Okay and is this like number was 30% also in the last quarter, but it is like or there any steps or have we undertaken to reduce this dependence especially in the disruption that has been seen in the last couple of years?

Jitesh Devendra: Yes, so one of the key raw material, which we buy from China, we have already started work with some domestic sources, it is good to note that there are two domestic sources, which have come up and we are in the stages of qualification, so that would reduce the dependency on China. Some of the key intermediates, we are backward integrating and using our Mysore facility we would make these key intermediates.

Gargi Sharma: Got it, understood and just another question is on the RoW market growth, so are there any specific markets, which are like outperforming or when you see maximum potential, which can sort of beat Japan so to say?

Jitesh Devendra: So, for RoW market, the significant shift what we are seeing is that even these markets are following the regulated market approach in terms of the documentation to be supplied, so it is a major shift and hence that forecast is expanding our presence even in the RoW markets.

Gargi Sharma: Got it, any specific markets?

Jitesh Devendra: Korea is one such market, which have not highlighted, and we have initiated our efforts for the China market.

Gargi Sharma: Got it. That is all from my side. Thank you.

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

Ashwini Agarwal: One question, I wanted to ask was that if you look back at fiscal 2019 in hindsight or in retrospect the numbers obviously are way ahead of what we expected, I do not know what internal plans were because there is no official guidance out there, but what was the surprise elements for you, positive surprise elements if any over the last one year?

Jitesh Devendra: Ashwini, one of the key levers for our EBITDA growth is on the continuous operational improvement program, so we set a certain timeline because depending on what improvements we make in the process we do not know what kind of filing strategy the customers may adopt whether it is a CBE-30 or CBE-0 or a PAS. One good thing happened was we have a better process efficiency for one of our key APIs, which was earlier than anticipated, then from a new product one out of the four new product launches we had, one new product there was stability in terms of the demand for the product. We had built into our budget volume decrease due to competition but there was continuous demand and it is continuing. So, it was all about the execution that some of the things what we planned in Q3 or in Q4 we were able to advance them to at least by one quarter.

Ashwini Agarwal: Is there a sort or rough benchmark, capital turnover ratio that one can think about in the kind of business that you are in?

Jitesh Devendra: This is more specific to the asset turnover, right?

Ashwini Agarwal: Yes, asset turnover.

Jitesh Devendra: As you know, the benchmark from an API point of view we look at Divis, which is at about 2% and we have increased from 1.4% to 1.6%. So we continue to relook even in terms of our product mix where our target for any product is that it has to meet the gross margin of 50%, so we are working on some of the APIs where we can do the CIP work to get to that, if not we look at replacing that with any other product which can give us those kind of gross margin.

Ashwini Agarwal: Last question from my side, when you look at your top 10 or top 20 products making up 75%, 77% of your revenues, are you comfortable with that or do you think you need to reduce the concentration, how do you feel about that?

Jitesh Devendra: We feel confident and comfortable with that Ashwini, given that it is not dependent on one customer right or one market, Our Products are spread out across customers and geographies.

Ashwini Agarwal: Right, yes, I agree with you because the same product can be sold to multiple customers, across multiple geographies, so that gives you that diversity in your operation. I think everybody is trying to get some sort of guidance from you, if you can help in that direction that will be great.

Jitesh Devendra: Thanks Ashwini, but we will avoid that right now giving the guidance because we are in a growth phase As I said we remain very optimistic about that plus we have initiated our business development efforts on the CRAMS part of it, I am very happy to say that since we have initiated our efforts we put in RFPs close to $10 million and we are awaiting answers for them, so we remain very confident of both our current generic API business and our efforts on the CRAMs business.

Ashwini Agarwal: Right and this capital infusion that is happening now and I think the warrants will convert over the 18 months from date of issue Hari is that right?

Hariharan Subramanian: Correct, Ashwin.

Ashwini Agarwal: So, this capital should see you through till the foreseeable future along with the cash flows that you are generating, so that would be a fair assessment over the next five, seven years at least?

Hariharan Subramanian: As of now Rs.460 Crores what warrants we have issued, we already clocked in Rs.148 Crores as of March and balance amount in tranches is expected before September 2020.

Ashwini Agarwal: Yes, so after that it should become self-sustaining pretty much?

Jitesh Devendra: That we must see, at this time, yes, we are looking at making significant investments in Vizag phase 1 as we have already committed to it, which is going to be the flagship site of Solara along with other sites what we have.

Ashwini Agarwal: Great. Thanks. All the best. Look forward to being in touch.

Moderator: Thank you. The next question is from the line of Vipul Shah from RW Equity. Please go ahead. The next question is from the line of R Narayan from NS Advisors. Please go ahead.

R Narayan: My question was on the API pricing asset, given in the last quarter you have mentioned that you are not generally averse to taking price hikes and that is also I believe some of it reflected in this quarter's margin, is it something that it will follow through in terms of a lag effect that is on one part and the other is how we do see the strategy on pricing when the cycle turns around like clients would still be comfortable with the same state of prices what we have agreed upon?

Jitesh Devendra: On the price increase part of view we have been very strategic rather than being very opportunistic and the pricing what we have built is we are confident is a sustainable one, wherever we had to take price increase because we have been forced to in terms of the raw material price increases what we had.

R Narayan: Will it be with the prevalent price or is there more to come?

Jitesh Devendra: If we see further impact from the raw material price increase then yes, we will have to pass it on that as a price increase on our API.

R Narayan: Could you also please share more light on the CRAMS business and your capabilities, which you have highlighted in the presentation, how much of the investments will be directed towards CRAMS business and what is the kind of payback we are looking at from this segment?

Jitesh Devendra: We will not give a separate P&L on the CRAMS part of it, but today we do have legacy CRAMS business, which we have been doing, which contributes for about close to 5% of our total revenues and building on that we have been able to go and approach our existing customers as well as new customers and hence we have been able to quote on RFP's worth $10 million. From a capacity point of view, I mean these are the existing facilities plus the facility what we are making investment in Vizag that would cater to the CRAMS requirement and as we also mentioned in one of the parts of the capital infusion by the promoters and the TPG we are looking at inorganic opportunity and that could be more towards the CRAMS area.

R Narayan: So, going forward, what is ballpark range of CRAMS contribution you mentioned right now, what is the ballpark figure we could arrive at?

Jitesh Devendra: May be that will go up by another 2%, but the major, we just initiated all the business development efforts, so we are just scratching the opportunity right now, once we convert those RFPs into real business and plus we had that inorganic opportunity then CRAMS would add significantly to the overall revenues of Solara.

Moderator: We will move to next question from the line of Aditya Khemka from DSP BlackRock. Please go ahead.

Aditya Khemka: Thanks for the opportunity. Sir I just wanted to check a couple of numbers with you, so I was looking at the net debt numbers on your presentation, so your net debt seems to have come down year over year from Rs.585 Crores to Rs.461 Crores, so in a fact a reduction of about Rs.120 Crores and you said your free cash flow was about Rs.90 Crores right for the full year of FY2019?

Hariharan Subramanian: Yes.

Aditya Khemka: So, the additional Rs.30 Crores that we used to pay down debt came from infusion of warrants or money from the promoter is that correct understanding?

Hariharan: We have not utilized warrant funds. We have sold one of the unit, Mahad, we had disinvested during the current year

Aditya Khemka: Okay, so when I look at your balance sheet you have a cash of Rs.220 Crores as of now right, Rs.225 Crores and the net debt is netting off that cash, so the question is that in March 2019 as of end of March 2019 did you receive any money from the promoters or TPG for dilution of equity?

Hariharan Subramanian: We have received Rs.148 Crores from the promoter and TPG as of March 31, 2019.

Aditya Khemka: Right, so that is already reflected in your net debt right, so out of your Rs.90 Crores free cash flow then, you have not reduced any amount of debt, your debt has gone up if I adjust for that Rs.148 Crores?

Hariharan Subramanian: During FY19, we have also acquired Ambernath facility through part debt funding.

Aditya Khemka: Got it, so how much was Ambarnath acquired for?

Hariharan Subramanian: Rs.131 Crores.

Aditya Khemka: Rs.131 Crores okay, so that covers the gap, okay and the other question I had was regarding this entire China situation, so I listened to a comment where you said that 30% of your raw materials come from China and you are looking to again sort of diversify that, but in terms of the business that you are getting and again I know this might be very, very difficult to answer, but just to get a sense as to how much of that business is coming from customers who are previously sourcing from China and are now sourcing from you?

Jitesh Devendra: Yes, I would say it is very insignificant in terms of the China issues I would not think that would be the right way of putting, but yes in future we are looking at newer opportunities where as I mentioned some of the CRAMS business what we are targeting may be coming out of the issues what China is facing as well as the cost increase what China has. One of the key issues is on the advanced stage intermediates as well as the key starting materials that is also coming under the purview of all the regulatory inspections and customers would prefer that even on an advantage stage intermediate that they would from source it from a regulatory compliant facility.

Aditya Khemka: Fair enough and what is your sense on the China issue, I mean they have been facing supply constraints now for the past two years almost and we understand that there is something around pollution, so they are relocating some capacities, in some cases, they are putting up effluent treatment plants, how long would you believe these issues would last and once these issues are over in terms of relocation or putting up of effluent treatment plants, would you believe that whatever benefit the Indian industry including yourselves are getting from the Chinese customer attrition, would that go back to China?

Jitesh Devendra: Sir from a cost point of view I do not think that China would be able to get back to the levels what they were at, given that the investments what they need to make in to be environmentally compliant, but what we are definitely seeing as an opportunity is to sell

APIs into China and elsewhere we have initiated our efforts where we have also filed some of our DMF's in China.

Aditya Khemka: I hear you, my question was that in your reckoning how long could it take China to sort of come back to full capacity and even with inflation in cost would you believe that their cost would now be lower than Indian APIs system or similar, I know, product to product it would be different, but at an aggregate basis in your understanding would it be lower, higher, similar where would you put it, I mean we know that earlier it was lower, so post the rectification of the issues where it would be?

Jitesh Devendra: It is very subjective when China is going to come back, it is not that they would not come back, they are shifting their production also from where they are right now, to probably other places and where they can be environmentally compliant, so other than that it is very difficult to gauge as to when they will come back 100%.

Aditya Khemka: No, I understand that it is difficult to guess when, my question is whenever the two the business so understand the perspective of the question. The perspective of the question is you are putting up capacity to do business that already China used to do, so my question therefore is to gauge whether the management understands how long those issues can last number one. Even if not that once the issues are resolved will the capacity that you put in continue to be utilized or will the business go back to China and that basically it depends on the cost?

Jitesh Devendra: So, we are not putting up or increasing our capacities because of the China issues, so whatever capacities we have putting, including in Vizag we have a firm customer commitment on a long-term contract.

Aditya Khemka: And how would you define long-term?

Jitesh Devendra: Five years.

Aditya Khemka: Thanks for your answer gentleman and have a good FY2020?

Jitesh Devendra: Thank you.

Abhishek Singhal: Can we take the last question please?

Moderator: Sure. We will take the last question from the line of Saravanan Vishwanathan from Unifi Capital. Please go ahead.

S Vishwanathan: Good afternoon. Thanks for taking my question. I am not sure if you have covered this part. Is there any defined debt reduction plan in the next two years?

Hariharan Subramanian: We have already indicated that our debt to EBITDA ratio will be less than 2.

S Vishwanathan: Okay and what about the ROE targets, ROCE you had clearly specified the targets, what about the ROE?

Hariharan Subramanian: We do not want to specifically comment on a target, if you see we are looking at healthy ROCE

S Vishwanathan: No, what does the steady state target I am asking? Can we assume similar target high-teens for the ROE as well?

Hariharan Subramanian: We would aspire for.

S Vishwanathan: Would we get there in the next three years?

Hariharan Subramanian: We do not want to specifically guide to a number, we are optimistic of growth ahead.

Jitesh Devendra: But not lower than where we are now.

S Vishwanathan: Okay. Thank you, all the best.

Hariharan Subramanian: Thank you.

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

Jitesh Devendra: Thank you everyone for taking your time and joining the Solara's call. It was a good interaction and we look forward to our next quarter call. Thank you.

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