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Dalal Street, Mumbai – 400 001

Scrip Code: 541540

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

Scrip Code: SOLARA

Dear Sir / Madam,

Sub: Submission of transcript of conference call under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we hereby submit the transcript of Q2 FY19 Earnings Conference Call for investors analysts organized by the Company on Tuesday, October 30, 2018 at 3.00 PM IST.

Thanking you,

Yours faithfully,
For Solara Active Pharma Sciences Limited

S. Murali Krishna
Company Secretary

SOLARA ACTIVE PHARMA SCIENCES LIMITED

Encl:- as above

"Solara Active Pharma Sciences Limited Q2 FY19 Earning Conference Call"

October 30, 2018

MANAGEMENT: **MR. JITESH DEVENDRA – MANAGING DIRECTOR, SOLARA ACTIVE PHARMA SCIENCES LIMITED**
MR. HARIHARAN S – CFO, SOLARA ACTIVE PHARMA SCIENCES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Solara Active Pharma Sciences Limited Q2 FY19 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 telephone. Please note that this conference is being recorded. I would now like to 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 the Solara Active Pharma Sciences earnings conference call for the second quarter and half year ended financial **2019**. Today we have with us Mr Jitesh Devendra – Solara's Managing Director and Mr Hariharan – 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 for this call will be made available in a week's time on the company's website. Please note that today's discussion may be forward-looking in nature and must be viewed in relation to the risks about our business. After the end of this call, in case you have any further questions, please feel free to reach out to the investor relation team.

I now hand over the call to Jitesh for making the opening comments.

Jitesh Devendra: Thank you, Abhishek. Dear friends, thank you for participating in Solara's earnings call for Q2 FY19. In the interest of time and to keep the long session for Q&A, I will keep my opening remarks brief. I will start with the quarter first. We are happy to report a good set of numbers which also extend the growth trajectory we set for us in the Q1. Our revenues went up by 13% Q-on-Q and 23% year-on-year if compared to the same period in the previous fiscal. As our business is evolving, the Q2 this year shows a blip in the margins predominantly due to the impact of the foreign currency moment and product mix change. The gross margin we believe is expected to get normalised in H2. Our growth is largely a combination of base business and new launches which we had in Q1. Both these categories are of importance to our future strategies, and we continue to emphasise operational excellence and R&D efforts in these. If you look at the filings for the quarter, we had one filing in the US for a new product and the other filings predominantly focus on the new markets for our existing range of products. Overall in the first half of the fiscal, we reported a robust 25% plus growth in revenues along with EBITDA jump of 56% which is a result of a constant focus in building efficiencies, manufacturing robustness and cost controls.

Moving to the future, we see three growth pivots for us the base business, new products and the CRAMS opportunity which will deliver in the medium to long-term. We are continuously working on new partnerships and markets for the base business, and our R&D has a dedicated program for the cost improvements to drive margins. On the new products, we are on track to have at least ten new DMFs filed for FY19, and this will enable a significant upside as we progress. On the third pivot, we have started our work around building team and capabilities, and we believe, we will be able to make headway into this growing opportunity. We remain excited about the API industry and are well on course to deliver the promised value.

With this, I will conclude my opening remarks and passed on to the moderator for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. We take the first question from the line of Sriram Rathi from ICICI Securities. Please go ahead.

Sriram Rathi: Couple of questions. Firstly, you mentioned that base business plus new launches had driven the 13% growth. How many new products were launched, and which were they?

Jitesh Devendra: So, we had two new product launches in Q1.

Sriram Rathi: In Q2 any other products that we launched?

Jitesh Devendra: No, overall for this year we expect five new launches out of which two are in H1, and three are expected in H2.

Sriram Rathi: And secondly, I mean given the current scenario in the industry of shortage of supply constraint of APIs and the resultant price hike, how that would have impacted our business, I mean positively or negatively?

Jitesh Devendra: So, we did have a positive impact due to some of the shortages of the API what we have in our portfolio. So, overall it has been positive.

Sriram Rathi: And I mean what proportion of our product portfolio would have impacted positively because of this API shortage overall and price hike? How many products are under that category?

Jitesh Devendra: So, we do not break up sales by-product, Sriram but as I said we did have a positive impact from our price increases of the APIs what we have been commercially selling.

Sriram Rathi: And we maintain our guidance for full year of around meeting growth?

Jitesh Devendra: Yes, we had guided at 20% growth year-on-year on the EBITDA, and we are confident about achieving the same.

Moderator: Thank you. We will take the next question from the line of Subratu Sarkar from Mount Intra Finance. Please go ahead.

Subratu Sarkar: Sir, first to understand like our EBITDA margin has come down on a Q-on-Q basis. So, exactly what is the reason for this? Moreover, regarding that like because of this currency impact and like shortage in our RM also, so considering that fact, what is our outlook on that sir?

Jitesh Devendra: So, on the EBITDA margins as I mentioned, this is a one-off, and we expect this to correct in Q3 onwards due to the impact of the foreign currency on some of the raw materials what we import and the same we have passed on as a price increase. So, this is more of a one-off event in the Q2 as well as we evolve our business on the product mix we are rationalising our product portfolio to ensure that we need the minimum threshold what we have set for ourselves of a gross margin of 50%.

Subratu Sarkar: And sir, to understand sir, we have any foreign currency borrowing and what will be the impact of currency depreciation on that sir, is it any?

Hariharan S: Yes**,** We have a foreign currency borrowing and PCFC loan of around $20 million as of end September.

Subratu Sarkar: Sir, basically the change in balance sheet like in borrowing from 242 crores to 260 crores from March to September 2018. Is it because of this like mark-to-market adjustment or we have taken some fresh loan also?

Hariharan S: Mark-to-market adjustments accounts to around Rs. 147 million and balance due to new loan

Moderator: Thank you. Next question is from the line of Ashwini Agarwal from Ashmore Investment Management LLP. Please go ahead.

Vaibhav Gogate: This is Vaibhav Gogate. If we look at the total equity number, it has reduced from Rs. 764 crores in March 2018 to Rs. 760 crores in September 2018. Moreover, if you look at the total comprehensive income, it has been around 10.9 crores. So, how do we reconcile these two statistics?

Hariharan S: It is due to the opening balance sheet adjustment because of the acquisition accounting which were explained in our notes to account. Rs. 46 million has been adjusted towards that acquisition adjustment and also that in the share premium issue has been adjusted to the extent of the share issuances expenses during the last quarter. So, if there is no dilution of any equity, it is only that the share premium amount has been adjusted.

Vaibhav Gogate: And what is the current status of Ambernath Divestiture?

Hariharan S: Not Ambernath. This is the Mahad. Mahad facility has been disinvested from effective 1st August. So, we have accounted only for one-month loss during the current quarter.

Vaibhav Gogate: And I had one more question. What would be your sensitivity to exchange rate at this moment? Moreover, have you done anything on the hedging policy front?

Hariharan S: **C**urrently all the loans have been valued at Rs. 72.50 /USD at the end of September, and then we are not taking any hedging policy as of now. However, if you look at it logically from the

March level of 38 million USD of FOREX loan we have reduced to 20 million USD loans at the end of September. Moreover, we are also looking at the various option that how do we take the maximum benefit of the exchange rate fluctuation without having any Forex loss on loan. We are continuously working on our Forex policy to reduce the impact on the Forex movement.

Vaibhav Gogate: I had one more question. So, if you look at Q2, the cost of raw material was a bit high because of currency let us say. So, how long would you take to pass on these raw material price hikes?

Hariharan S: That is already effected. So, we will see the impact from Q3 onwards.

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

Alankar Garude: My first question is if I look at your EBITDA growth in the first half at 56%, but you are still maintaining your guidance of 20% in FY19. Moreover, given the tailwinds which we see because of the China issue, do you think that there is, what are you not revising the 20% guidance for the full year?

Jitesh Devendra: So, while we are confident to meet the 20% growth in EBITDA, we are working to achieving more. However, we still want to maintain the guidance that we will have a minimum 20% EBITDA growth compared to the last financial year.

Alankar Garude: And sir, secondly just wanted your general comments on the entire API opportunity for us. How long do you think the tailwind from China is going to sustain specifically for us as well as for the industry? Moreover, if you could give some comments on the pricing and volume scenario, that would be helpful.

Jitesh Devendra: So from the China scenario there is a lot of interesting trends which are happening one from a pricing point of view we are on a level playing field. I guess the biggest impact regarding the prices going up relates to the environmental part of it and we know when we operate a zero liquid discharge the operating costs thus shoot up. So, that is going to be constant. We do not see that coming down that the prices at least in the next 12 to 18 months because everyone would be maintaining the same standards on the environment piece of it. The other is, we are seeing a big opportunity on a reverse side where a lot of APIs are going from India to China. We serve China as one of the markets which we are actively focusing on we have already filed 2 Chinese DMF, and we will continue to file many more DMFs in China.

Alankar Garude: Sir, just a quick follow up on that. When you mentioned that the pricing because of the level playing field it is likely to be a constant, so that means that the price hikes which we have taken that is likely to sustain even going forward into FY 2021?

Jitesh Devendra: We believe so.

Moderator: Thank you. We take the next question from the line of Aditya Khemka from DSP BlackRock. Please go ahead.

Aditya Khemka: Sir, firstly your guidance of 20% EBITDA growth Y-o-Y, is that on a reported basis, adjusted basis excluding Forex, excluding R&D what all adjustments should I make to understand the guidance?

Jitesh Devendra: On a reported EBITDA basis.

Aditya Khemka: So, on a reported EBITDA basis to meet your 20% guidance for the full year you need to do 172 crores of EBITDA of which I think on a reported basis you are closer to 95 which would imply a balance EBITDA of 75 crores over the next 2 quarters implying only 38 crores EBITDA per quarter. While I understand that you may not want to revise your guidance and just say that will be the guided 20%. What I want to understand from you is that is there any reason for you to believe that you will not be able to do a 40% EBITDA growth Y-o-Y?

Jitesh Devendra: So, of course, we are not looking at Q3 and Q4 to be lower than Q1 and Q2 will be on a similar line or it will be better. Moreover, as I said before this is our first full year of operations, and there is a lot of cost improvement programs also what we have undertaken. So, there is a timing factor what we have considered when it will kick in because there is some regulatory changes what the customers would have to do. We are still maintaining that at least we will do 20% for sure.

Aditya Khemka: Whatever cost rationalisation, etc. you had taken under way for the year that is not reflected in 2Q, right? I mean, that will be reflected beyond 2Q, correct?

Jitesh Devendra: We did have some cost improvement programs in our H1 effected, but the majority of them would start flowing in from H2 onwards. Moreover, as you said we also are expecting three new launches in the second half. So, we have to build some sensitivities around that given the approval timeline. So, that is why as I said once we complete, Q3 then we can talk about the Q4 margin.

Aditya Khemka: No, let me be a little more candid here. I need to explain to you why I have discomfort with the statement that you are making because you are launching newer products your price increases will come into effect from the third quarter to compensate for the raw material cost inflation and your cost improvement initiative should be before the more cost saving and what you have already done in the first 2 quarters. All three things point out to me that your EBITDA margins should only improve from what you have done in the previous two quarters. Now, related to versus that when you guide that you should do 20% growth easily or you should do 20% what I am afraid of is there something in the base of first quarter or second quarter in terms of total topline or margin or R&D spend or something else that I need to be varied off which you internally believe can actually deteriorate and therefore you are hedging your bet of having a lower EBITDA over the next 2 quarters.

Jitesh Devendra: No, that is not the case not that we want to take something from the H1. We do not have risk or exposure to H2. Your question is valid there could be upside to the 20% EBITDA growth guidance what we have given.

Aditya Khemka: So, just feedback for future it will help us if you revise the guidance in a more timely fashion. It just helps us understand the business trend a little better versus giving guidance and doing something way above or way below that.

Jitesh Devendra: Absolutely, once we complete the Q3 and when we have the Q3 call we will be in a better position to even guide better what is that we are looking forward to Q4 and the year as a whole.

Aditya Khemka: Secondly, if I look at your top line growth for first half FY19 you are again more than 15% if I can say so about 16% topline growth. Would that be a fair number to extrapolate to the second half of this year and even maybe FY20? As in the question is as you stand today your business model, your products, do you get the comfort that will be able to grow at a mid-teen digit growth sustainably on the top line?

Jitesh Devendra: Yes.

Aditya Khemka: And my last question is again on the China front, I think a previous participant asked that question. So, China has given you a level field regarding competing with them but when it comes to the range of products that China was offering and our capacity and our ability to even produce anywhere volumes closer to what China was offering. Where do we stand in that process and how much CAPEX would you need to cater to the opportunity that may be staring you in your eyes. Moreover, are you there to do that CAPEX is the management comfortable doing that CAPEX because China has the art of disappearing and then suddenly coming back on the screen. So, what do you do then if you put CAPEX and then China comes back to supply?

Jitesh Devendra: Your question is good. We have to be cautious regarding that; it is not a one-time opportunity wherein we put the CAPEX, and then China comes in and then we are left with excess capacities. So, in some of our APIs where the demand is higher than what we are producing we are being cautious in the sense that we are getting long-term agreements in place with the customers that they have to commit to those capacities unless or until they do not do that, for us it seems to be a one-off opportunity, and we will not put in CAPEX where we believe it is only a short-term.

Aditya Khemka: On the debt front, so given the FX movement and I think I read somewhere that we did reduce our dollar debt during the quarter, while our INR debt went up. Is that a correct assessment?

Hariharan S: Correct assessment, sir.

Aditya Khemka: So, despite a positive EBITDA why are we still raising more debt?

Hariharan S: No, it is not that. The GST refund which is the working capital blockage. Nearly 54 crores are blocked in the GST. To have a working capital flow, we need to borrow to maintain the operation for an increase in the volume of business. However, we are working with the various agencies to get these GST issues sorted out as soon as possible. Moreover, that is the reason that we anticipate the debt level will come down in H2.

Aditya Khemka: And if I exclude this GST refund of 54 crores how does your net debt compare for the first half to FY18?

Hariharan S: To the extent of the same amount, sir.

Aditya Khemka: It will be largely the same amount?

Hariharan S: Yes sir.

Aditya Khemka: How much CAPEX are we planning for FY20 and FY19, please?

Jitesh Devendra: So, every year we have earmarked about Rs. 100 crores in CAPEX, and this has the factor of 2. One is the operational maintenance CAPEX as well as debottlenecking of existing capacities.

Aditya Khemka: So, this has no expansion CAPEX per se, this is all maintenance and debottlenecking of capacities? Alternatively, are you putting additional capacity as well?

Jitesh Devendra: The debottlenecking is related to the expansion of capacities.

Moderator: Thank you. Next question is from the line of Pranav Tendulkar from Rare Enterprise. Please go ahead.

Pranav Tendulkar: I just wanted to ask you some questions on the strategy and in your annual report you have said that you will be focusing on one is first-to-file opportunities in drugs and also second is improving yields and quality with dedicated cost improvement program for the existing or expired patent drugs – APIs. So can you elaborate on both?

Jitesh Devendra: So, your question would relate to in terms of our product selection as well as how we are looking in terms of growing our EBITDA on a year-on-year basis. So, I will break it into two. One is on the product selection. We have three buckets of our product selections, one we have products which while the NCE-1 type of opportunities where we have the advantage of being the primary source. The second is we look at quick to launch APIs where the products have scarcity in terms of the API suppliers, and the third is market specific opportunities where there are APIs only in the markets which are key markets for us like for example Japan. So, we do not shy away from investing in market-specific opportunities. So, that relates to the strategy on the selection of our

APIs in our R&D pipeline. The second part of your question relates to a key pivot for our EBITDA growth is cost improvement program. We have a dedicated team which is separate from the team which works on new product filings. So, this team reports into the chief operating officer~~s.~~ So, they along with the operations have already had a roadmap in terms of what products are there where we can achieve better efficiencies in terms of the yield.

Pranav Tendulkar: So, are you also expanding any of the therapeutic areas because you are very strong in pain and I think antimalarial, anti-infective, antipsychotics. However, are you expanding those therapeutic lines?

Jitesh Devendra: So, more than therapeutic we are focusing in terms of the technology related challenges in making the API. Being in the generics markets as far as it sits into the capability in our R&D and manufacturing. We focus more on the chemistry rather than the therapeutic category.

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

Ashwini Agarwal: Quick question, I just wanted to understand this is a follow up to the question asked by one of the earlier participants on the second half outlook. There is no seasonality in your business sir, is there a seasonal aspect to your business relating to flu or relating to Christmas where sales slowdown or anything like that? Is there any seasonality to your business?

Jitesh Devendra: So, from seasonality, so for the majority of our APIs there is not seasonality except, probably I can only think of one API in our current portfolio where it is more driven by the flu season. Other than that it is more or less constant throughout the year.

Ashwini Agarwal: No, because I am just looking at your H1 FY18 numbers where your EBITDA was close to 81 crores out of 143 that you reported for the full year, so second half last year was significantly weaker than first half or little weaker than the first half let us say. So, I was just wondering that is there a seasonality which is embedded in your guidance and that is why you are guiding to 20% growth, but that is not the case. So, what happened last year, the second half?

Jitesh Devendra: So, the second half of last year , we anticipated some launches to happen which just got delayed, Ashwini. Moreover, the majority of the price increases also what we have felt as come into play in the H1 of this financial year.

Ashwini Agarwal: And Hari, one detail I needed, so in your press release and your results table you have separately broken out the loss from discontinued operations, right which would have been Rs. 7.68 crores. Now, what is the corresponding EBITDA number to that and is that included in the reported EBITDA of Rs. 49.5 crores for Q2 and Rs. 96.1 crores for H1?

Hariharan S: No that is a discontinued operation where we have sold the business effective 1st August, and the impact has gone with the business, it is not going to affect going forward. It is not the part of the Rs. 49 crores what we have reported. It is only the continuing operation that will be reported separately, sir.

Pranav Tendulkar: I get that, so out of the 96.1 Crore what should I reduce to arrive at the EBITDA percentage on a reported basis. I will tell you what I am driving at?

Hariharan S: Mahad operations EBITDA has been shown under discontinued operation in our Q1 and Q2 published results. Kindly refer the same.

Pranav Tendulkar: And lastly if you can tell me out of the Rs. 650 odd crores of sales, what was the export element on your revenue line and what is the import element on your operating cost?

Hariharan S: 50% of our sales is export, and 39% of our consumption is imports. We are a net foreign exchange earner.

Pranav Tendulkar: So, it is a fairly large number, and most of that would be USD I am guessing.

Hariharan S: Yes.

Moderator: Thank you. We would take the next question from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir you mentioned that you are looking at lower debt levels in the second half. Can you round about quantify that what is the level we are looking at?

Hariharan S: We have already guided will be Rs. 625 crores to Rs. 650 crores, sir.

Deepak Poddar: Rs. 625 crores to Rs. 650 crores?

Hariharan S: Yes.

Deepak Poddar: So, when will we start seeing basically reduction in our interest cost right because it has been increasing for the last two quarters.

Hariharan S: In the Q4, sir.

Deepak Poddar: And what is the outlook for FY20 in terms of debt levels?

Hariharan S: We will guide it separately during quarter four regarding the FY20, sir.

Deepak Poddar And you did mention that this quarter EBITDA margin was an aberration in terms of foreign exchange loss and other things and you expect EBITDA margin to come back to our normal level from the third quarter onwards?

Hariharan S: Yes.

Deepak Poddar: So, what normal level we are talking about? The first quarter level, with the first quarter EBITDA margin, is that a sustainable level that we are looking forward to?

Jitesh Devendra: So what we meant was more on the gross profit level. So at the gross profit, if you look at our first quarter numbers you are close to around 49.5-50% that is the level we should see as the portfolio mix rationalises in the second half, gross profit margin should go to that level.

Moderator: Thank you. We will take the next question from the line of Aditya Khemka from DSP BlackRock. Please go ahead.

Aditya Khemka: So if I may ask you on the Chinese situation how much of our import of raw materials happens from China and can you quantify roundabout a ballpark number we would do as to how much inflation we have seen in those raw materials at an aggregate level?

Hariharan S: Out of which 39% import in total around 30% is from China.

Aditya Khemka: 30% of 39% or 30% of the total …

Hariharan S: 30% of the total. Out of 39%, 30% is from China and balance 9% from other countries, and we have seen that yes during the quarter one onwards the price of the raw material has gone up what we import from China and especially the basic key starting raw materials. So, we are in a position to pass on to some extent the raw material price increase, and due to the exchange rate adjustment, we will be doing in a phased manner the price adjustment in our final product as Jithesh has indicated.

Aditya Khemka: And I believe earlier you used to give the split of your revenue by geography in terms of US, EU and ROW. Can I have the similar split for this quarter, please?

Jitesh Devendra: 77% is regulated market. More or less it is the same as Q1, and we will provide that information.

Aditya Khemka: Yes, so again going forward if you could put that information in the press release in the form of a small table or a graph would be great for us to have the information handy. Moreover, I will take this offline in terms of what the breakup is for 1Q and 2Q-19, actually wanted for both quarters. Lastly, on the labour aspect, so in these plants have you seen any material inflation in the cost of labour as and what has been the aggregate increment that we have given to the employees say, FY19 over FY18?

Hariharan S: It is average 10%, sir.

Moderator: Thank you. Well, ladies and gentlemen, that seems to be the last question for today. I would now like to hand the conference over to the management for their closing comments.

Jitesh Devendra: Again, thank you, everyone, for participating in our earnings call, and we look forward to further interactions on our next Q3 Earnings Call. Thank you once again.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Solara Active Pharma Sciences Limited, we conclude today's conference. Thank you all for joining us, you may disconnect your lines now.