"Solara Active Pharma Sciences Limited Q2 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Solara Active Pharma Sciences Limited Q2 FY2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the 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 Q2 and half year ended FY2021. Today, we have with us, Mr. Bharath Sesha, Solara's MD and CEO, Mr. Hariharan, Executive Director Finance and Mr. Subhash Anand, CFO to share the highlights of the business and financials for the quarter. I hope you have gone through our results release and the quarterly investor presentation, which have been uploaded on our website as well as the stock exchange website. The transcript of this call will be available in a week's time on the company's website. Please note that today's discussion maybe forward-looking in nature and must be viewed in relation to the risks pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to the Investor Relations team. I now hand over the call to Bharath to make the opening remarks. Bharath!

Bharath Sesha: Thank you so much Abhishek. Good afternoon everyone. Thank you for joining this call today. Many of us are learning to live in the new normal and on behalf of the entire team here at Solara, I would like to wish good health to all of you and your near and dear ones. I am very proud and delighted to share that the momentum that we had generated over the last few months continues unabated and Solara has delivered its best ever quarterly financial performance. The macros which I have been alluding to over the last couple of quarterly calls, mainly customer de-risking their supply chains and thereby providing immense opportunities for companies like Solara continues to be strong and widespread. Our employees continue to do a splendid job of balancing health and wellness with our commitment to customers and to society at large. Let me call out the highlight of the quarter just went by, we have delivered the highest ever quarterly EBITDA, EBITDA percentage and PAT in the history of the company. Our EBITDA stands at Rs.1006 million and an EBITDA margin of 24.9% leading to a PAT of Rs.567 million. Our core strategy which is led by strong customer partnerships, a diverse product mix engaged and committed employees and a world class compliance framework is working really, really well. We see continued positive demand for our products and we are continuously gaining share of wallet at our existing customers. The Solara differentiation is paying off and we expect this will only deepen and strengthen.

Let me talk about some of the underlying performance drivers to the results I just shared with you. We see a continued strong and sustained demand for our base products and as I said earlier, we continue to increase our share of wallet with our key customers. Our portfolio maximization at all our facilities in terms of allocating capacity to high margin and in demand products is also a good driver behind the performance. Our regulated market sales continue to be strong and growing, we have a higher share of wallet with many of our customers in the regulated markets than we have in last quarter and we continue to win new business. Our CIP delivery is going from strength to strength. The efficiency machine that we had built at Solara continues to deliver excellent cost improvements. We have also significantly increased our speed of market extensions. In the quarter we have filed 10 new extensions mainly in the Asia Pacific region. We have also filed two new DMFs in the US market and we are on track to increase the filing speed in the second half of this year.

Let me also share with you a couple of updates on our CRAMS business. As I said earlier this is an incubation business for us and we see this tracking really well to plan. In the quarter, we have added multiple new customers including some large pharma companies. The diversity in our customer base for our CRAMS business, our continued traction with new customers both augur really well for our future.

Let me also dwell for a couple of minutes on our Vizag facility. I want to re-emphasize that despite the challenges of COVID, we have built a multipurpose facility which is state of the art at Vizag in record time. The site is coming along as planned, we have completed validation activities and we started commercial activities this quarter that is Q3 as planned. We will see revenue from the site in the second half of the year and things are tracking well with regards to customer commitment and securing business at the site. Vizag is well on track to be our flagship facility given that we have room there for future expansions.

Let me also quickly update you on the latest with regards to the Cuddalore inspection. As you are aware, the US FDA has classified our facility at Cuddalore as OAI ("Official Action Initiated") since then we have submitted all CAPAs on time and in consultation with internal and external experts. I want to re-emphasize that Solara is committed to the highest level of quality and compliance and quality systems that we have are robust. The observations do not have any impact on other APIs which we manufacture and supply to other markets or to the US.

Let me talk about some of the growths drivers for the second half of the year given that we have grown our first half year-on-year around 10%, we expect the following to help accelerate our growth in the second half of the year. The growth in the second half to be primarily anchored by Vizag coming on stream and contributing significantly. Our base products are also going to see continued momentum and we see that we will continue to maintain the increased share wallet that we have gained over the last six months. We also see continued traction on new products where the demand remains quite strong.

Let me also take a minute to update you on our progress with regards to our strategic agenda. As you could see our core strategy continues to deliver and the financial outcomes which are trending in the right direction. We have continued to augment our infrastructure and with a view on the future growth we have acquired land adjoining our Mysore facility and we have a multiyear plan to upgrade our Mysore facility to world class quality standards. We are also evaluating investments based on the PLI scheme announced by the government. We continue to develop new technology platforms that will enable Solara to differentiate our offerings in both the generic APIs and in the CRAMs space and we also continue to scout for the right inorganic play to leap frog our API / CRAMs growth trajectory. Based on good progress on strategic objectives and strong performance in the first half of the year and good visibility of demand in the second half of the ramp up of Vizag, pleased to increase our revenue growth guidance to 30+% year-on-year and our EBITDA growth guidance to 40+% year-on-year.

With that I would request Hari to share some details on the balance sheet and the key ratio. Thank you.

Hariharan: Thanks, Bharath. As you know some financials, our financial ratios have continued to improve on back of our good record performance. Further infusion of equity capital of Rs.288 Crores via subscription from our anchor investors (promoter group and TPG) was received in Q2. The share capital of the company has been increased from 26.8 million shares to 35.8 million shares post-warrant conversion. Our net debt as at September 30,2020 stood at 283 Crores after adjusting the cash in hand of 408 Crores. While our net debt to EBITDA ratio is comfortable at less than 1, our annualised ROCE is on the high teens. We are pleased to note that CRISIL has upgrade our credit rating from BBB+ positive to A- stable. Increase in working capital we have seen in this quarter due to refund delays of GST and export incentives receivable from the government authorities due to the cash crunch at their end and we hope that the same will be normalised within this Q3 and Q4. With healthy balance sheet and further infusion of share capital and abundant opportunities, Solara is poised to do excessively well in the future. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Alankar Garude from Macquarie Group. Please go ahead.

Alankar Garude: Thank you for the opportunity. Congrats on the strong performance and the guidance raise. Firstly, on that itself, if you could talk in detail about what essentially is driving this raise of guidance both on the topline as well as EBITDA and then maybe I can check for further questions?

Bharath Sesha: Thank you Alankar, so as I said the demand picture that we see in terms of our base products continues to be strong, we have visibility that says that we will see this continued picture for the coming months, that has driven us to increase our guidance when it comes to revenue. On the EBITDA levels, we continue to see our cost efficiency programs giving benefits and with the increased leverage we will get from the revenue growth we expect also EBITDA to be higher than what we originally guided, hence we have increased our guidance on both factors.

Alankar Garude: Understood Sir, so on that if you could just comment on how sustainable some of these trends are both on the topline as well as margins and also in that context if you could comment on our medium term guidance the one which we had shared till FY2023, so how will it be as far as the medium term guidance is concerned?

Bharath Sesha: Our medium term guidance given was till 2021, we will review and give a new guidance till FY2023 in the coming days and first question in terms of what do we see driving these factors, as I said we are still confident and we see the picture very clearly in terms of both demand and our ability to deliver cost efficiency, so that is kind of what is driving this.

Alankar Garude: Okay ….

Hariharan: Just to add to Bharath, it is sustainable performance what we see.

Alankar Garude: Understood Sir, my second question is if I look at the other market revenues it is just about up 3% in Q2, just to 2% in the first half and we have stated strategy of expanding our presence beyond regulated markets, I know we have increased pace of filings in the newer market but broadly any particular reason which you would like to highlight as far as the slower growth in the first half is concerned?

Bharath Sesha: We were consciously allocating some of our sales capacities to the regulated markets in the first half, having said that as you very rightly pointed out the filing speed has increased significantly in the rest of the world markets and we see that it is a good leading indicator for us to continue to grow faster even in those markets, so we see this as something that will happen in the coming quarters.

Alankar Garude: Understood Sir and on US two filings in the first half, are we on track for 8 to 10 filings in FY2021?

Bharath Sesha: Yes, we are on track for 8 to 10.

Alankar Garude: Fair enough, great. Thanks, and all the best. I will come back in the queue.

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

Tushar M: Just would like to understand this Vizag what capacity utilization will we able to have in by end of FY2021?

Bharath Sesha: We are ramping up as we speak, in Vizag, we have already announced that it is around 3600 tons per annum is the capacity at Vizag. We expect that it will be fully ramp up in four quarters having said that as we progress on the ramp up we will update further in the next quarterly call in terms of how we are doing according to the plan. The full capacity we expect will be reached within four quarters.

Tushar M: Got it. So, we have done 100 Crores kind of an EBITDA in 2Q and with 86 Crores in 1Q, so if I see it at the back of it the calculation from your guidance we are hinting at about 386 Crores EBITDA if I correct we are already there without Vizag, so am I missing out here or are we too conservative on this?

Bharath Sesha: Let me share it like this, so as we ramp up Vizag will have to take positions in the market, so, we will expect some pricing pressure from Vizag in the very short term, it will normalize over a period of time, so we have guided based on those factors as we have currently in terms of both EBITDA growth and on revenue growth.

Tushar M: Okay, so incremental operational expenses what would be…

Bharath Sesha: Yes, exactly.

Tushar M: Okay, got it. Thank you.

Moderator: Thank you. The next question is from the line of Anmol Ganjoo from JM Financial. Please go ahead.

Anmol Ganjoo: Thanks for taking my question. Couple of my questions have been answered already, but I just wanted to understand a bit better when you alluded to very strong demand environment and the fixed investment that you are putting, so I can understand demand environment being better but what are your thoughts on the sustainability of this demand because you always runs risk of over extending balance sheet at the peak of the cycle, how sustainable do you think the trends in the demand market are and how well we are positioned plus also if you would like to highlight some capital discipline parameters that you are employing whether it is in the form of asset turn etc., as you commit to new investments, any thoughts around these will be helpful?

Bharath Sesha: Let me address the demand part and may be Hari can jump on the asset turns and our targets towards that, so two ways to look at that and first the demand picture on some of our products we do not see that weakening anytime soon, these are products that got increasing share of wallet from very dominant market players, strong market players and were confident that this picture will remain in the coming quarters. Secondly, given that we have 40+ active products, it is normal that one or two products will see some weakening of the demand and one or two will see a strengthening of the demand, so the natural hedge that we have in our product portfolio with regards to overall demand for the company and the sales growth hence still remains very robust and strong, so that is kind of what is leading us to say that we see this sustenance of this demand and sustenance of growth in the coming quarters to come, may be Hari you can add on the asset turns and how we look at that.

Hariharan: Current asset turn is 1.7 times of the investment in our fixed assets and we expect that to be in the range of 1.7 to 1.8 in the coming period and our debt equity is currently at less than 0.8 based on the cash in hand and adjusting for the net debt. At any point of time as a guidance we do not want to go more than three times of the EBITDA to the net debt and so that any acquisition opportunities also we are working towards that with available cash.

Anmol Ganjoo: Thank you. I will get back in the queue.

Moderator: Thank you. We will move onto the next question that is from the line of Cyndrella Carvalho from Centrum Broking. Please go ahead.

Cyndrella Carvalho: Thanks for the opportunity and congratulations on a good set of numbers. First question was just to understand how is the environment, is there any change in terms of pricing and how is the API industry behaving from our perspective and the second question is we have alluded at most of the growth is on the volume base, so if you could help us understand how is the volume growth as a top products versus the new products? Thank you.

Bharath Sesha: So, on the pricing, pricing is stable and positive has been so far this year and as I said with the continued strong demand picture I see that trend continuing. We do not see in some of our key products any deviation from that trend, particularly the newer products that we have launched over the last couple of years. On the base products pricing will fluctuate but again just simply because of the breadth of our product portfolio we do not see that having any big impact to us in terms of financial performance. As of now the pricing picture is stable and positive and to your question on the volume driven growth we have seen that as I said we have gained share of wallet with customers which obviously then dictates that it would be an increase in volume and that kind of what has led to a strong performance in terms of revenue growth also this quarter. So, that is where a lot of the volume growth is coming from where we have existing customers and we have deepened our share of wallet there.

Cyndrella Carvalho: Based on our large volume products do you see any capacity any change ahead the supply disruption in the market to continue or you expect to come back in terms of supply side on the capacity?

Bharath Sesha: So, we are very strong in our positions when it comes to some of our high volume products, we have long term agreements typically with customers and we have worked for years together. So, supply demand change does not dramatically impact our business simply because we have been with those customers for years and we have longer term agreements with them. So, I do not see that having much of an impact with regards to us.

Cyndrella Carvalho: Okay, thank you and all the best.

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

Vinay Bafna: Hi! Thank you for the opportunity. I have one question did we have any impact from the export incentive which is implemented last month in this quarter and what will be a possible impact which you would expect in the second half of this year?

Hariharan: Yes, there is a cap of Rs.2 Crores for the exports incentives for each Company starting from September till December. Yes, we are affected by that. However, we are working on a de-risking strategy to mitigate the same by way of various methods.

Vinay Bafna: Could that be a particular reason why our raw material cost is substantially higher in this quarter it is up around 15% quarter-on-quarter and that is the reason why our gross margin is affected?

Hariharan: There is not much increase in our RM prices it is only to the product mix increase in the volume there is an increase in the RM consumption and that has nothing to do with the increase in the raw material prices.

Vinay Bafna: Understood, just to speak on it a bit more can we expect this level of gross margin to continue in the second half as well. Basically, seen that you already have mitigating strategy for these?

Bharath Sesha: We have already said that we are looking at the mid 50's, plus, minus 2% as we threshold that we look for in gross margin we continue to look at that as our threshold to continue. So, you can definitely say that we will see gross margins in that mid-50's level plus, minus 2% depending on the product mix in that quarter, allocation and other factors that play a role.

Hariharan: And we also expect that the new incentive schemes to be effective from 1st January as the government has announced we will wait for further details on that.

Vinay Bafna: Understood Sir, and just last one last question. In the presentation you said that your growth from the new products has been particularly low in this quarter and that this contributes 5% which will normalize going ahead. If I see the trends it has been quite volatile 7%, 11% so, what was the normal level for the contribution from these products?

Bharath Sesha: So, we are looking at anywhere in that 10% to 12% that is kind of the level that we are going for as you would imagine these are products that have been introduced in the last couple of years. So, for them to gain traction it takes time, and the ordering patterns change. Sometimes customer takes product in a quarter and then they wait for a couple more quarters before they take another batch of it etc. So, this is normal ordering pattern, but we expect it around that 10% to 12% that is kind of what we expect as normal level.

Vinay Bafna: Got it. Thank you so much and all the best.

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

Nitin Agarwal: Hi! Thank you for taking my question. On the Vizag facility from a capability perspective what capability is the Vizag facility adds to Solara as a business?

Bharath Sesha: As of now the first phase as we said was the expansion of our Ibuprofen capacity so that is really what we are bringing to the table in the phase I of Vizag. Phase II will be a multipurpose facility so, we can do multiple products in phase II and that is what we are working on currently in terms of implementing the phase II project. We expect that phase II will be commissioned somewhere in late Q4 this year, financial year 2021 and will be operational early next year. So, those are the two phases - phase I and phase II in Vizag, just talking about our plant in Vizag, I mean it brings in, some of the latest technologies that we have implemented in terms of manufacturing automation etc., but purely from a capability perspective phase I is expanding our Ibuprofen capacity phase II will give us capability to multiple products.

Nitin Agarwal: Okay, and secondly there is obviously a fairly renewed interest in the whole API segment over the last several few quarters and there are obviously multiple players operating out of India catering to various segments. In your own assessment what differentiates Solara from a broader patch as far as API business is concerned and what would be our competitive advantages in this business?

Bharath Sesha: It is a fantastic question and when you must look at it from our customer's perspective they are looking for basically three things from a supplier. So, first they want sustainability in other words will this supplier be here for the long-term because de-risking essentially means I need to go to a less risky option and so they look for credibility and long-term sustainability. The second they look for is peace of mind when it comes to quality systems, so if the supplier going to give me product that gives me peace of mind in terms of repeatable consistent quality and the third thing the look for is diversity of product portfolio and the long-term approach when it comes to the supplier. So, when we are talking to customers these are the three things we hear back from them in terms of what they are looking at and I am very confident Solara fits that bill perfectly well. We are able to give them the confidence when it comes to sustainability, longevity. We are able to give them the confidence when it comes to our quality systems and the robustness of our quality systems and of course we have shown track record of being long-term in our orientation towards our customers. We are not adhoc in our approach, we are not opportunistic in our approach, we have always believed in partnerships and longer-term partnerships and the proof is your share of wallet increase that we have seen over the last six months consistently month after month. So, I think that is what differentiates Solara and I alluded to it in my opening remarks I see that differentiation getting strengthened and deepened as we go forward.

Nitin Agarwal: And secondly from our product portfolio perspective in how many products probably, we are amongst the top three most competitive top players in and how many of our products and what proportion of business would that be for us?

Bharath Sesha: So, we are inherently competitive, we are doing so well in all our products, we are competitive in all our products, right. So, I would not like to comment specifically on one or two products I would say that our position is quite strong, our top ten products currently constitute about 77% of our sale and we are competitive and strong in all of those products, that is why we are doing well in them.

Nitin Agarwal: Okay, thank you and best of luck.

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

Ranvir Singh: Thank you for taking my question. Sir, on the warrant issues so far what we have received in cash is Rs.288 Crores and last year we have Rs.57 Crores. What portion of warrant remains to be converted and when it is possible and how we are going to utilize the cash coming out of this conversion of warrant?

Hariharan: Just to clarify it Sir, the total issue is Rs.460 Crores and we have received during the last financial 25% of the same and the balance total amount of balance Rs.288 Crores has been received now. So, entire Rs. 460 Crores has been subscribed by the promoter and TPG group and received all the money. As of now we have spent some portion of this for our expansion activities in Vizag, balance around Rs.400 Crores is kept in our fixed deposit for our future use. Future use as Bharath indicated we are looking for inorganic opportunities in the CRAMs sector so that fund will be utilized properly to increase our business volumes and the EBITDA.

Bharath Sesha: Just one more point to add to what Hari said, I think we are also currently as I said in my opening remarks looking for new platforms, new technology platforms that would enable us to differentiate. There would be capex required when we are going into those new technology areas and we will also be using some of these proceeds towards those capex investments.

Hariharan: Without the value addition activity.

Ranvir Singh: Yes, now we have cash in hand and I think it is six months now or last year in fact we received a few. So, have you seen any inorganic opportunity or how long it will take because by then the cash would be there in balance sheet so, what exactly, how we are going to go about it?

Bharath Sesha: So, first of all, the second tranche of warrants came in September this year so that is where most of the warrants came in. But your question is valid so, we are very clear on what we will acquire we are looking at two axes either science which means it brings capabilities or technologies that we complement what we have Second, scales or both. So, we are currently as you know it is very difficult to predict inorganic in terms of timelines exactly when it will happen all I can say is that we actively involved and engaged in looking at the right opportunities and we do that on a continual basis. When we find the right opportunity, we will definitely share at the appropriate time with all of you.

Ranvir Singh: Okay, that is it from my side. Thanks a lot.

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

Kunal Randeria: Hi! Good afternoon. Just more of the clarification, Bharath in your opening remarks did you mention something that within four quarters Vizag facility will run at optimum utilization?

Bharath Sesha: I have answered a question to that effect saying that we are ramping up and we expect within four quarters it will be at optimal utilization.

Kunal Randeria: Right, then what would your plans be, again we probably would run short of capacity. How should we look forward for the next two year to three years in terms of capacity?

Bharath Sesha: That is a good question. So, as I shared earlier, we are also building a phase II in Vizag which is multipurpose facility where we can do multiple products on campaign basis that is going to augment our capacity. I also said about acquiring land adjoining our Mysore facility where we will again upgrade our quality systems in Mysore and we will also look at making suitable investments there to expand capacity. I do not see us having any issues with regards to getting capacity available to support growth that we are very clear on and we have got plan towards achieving this thing. We are also doing I mean in our regular capex we do regular debottlenecking every year that significantly adds also to our capacities and we do that on an ongoing basis across all our facilities. So, that will also contribute incremental capacity in addition to the two points that I mentioned in terms of addition of infrastructure for more capacities to come in the coming years.

Kunal Randeria: Right, and in one of the previous calls you had mentioned that the gross block for the Vizag facility would be around Rs.200 Crores. So, would be fair to assume that may be in a year, year and half time Vizag itself would be generating around Rs.350 Crores kind of revenue?

Hariharan: Yes, that is what we are hopeful Sir, correct.

Kunal Randeria: Fair enough, my second question is on the gross margins. I mean in the last couple of years your gross margin has expanded very sharply and you said that it is not the price, but the product mix which has driven it. Do not you think that there is a risk that exists may be a couple of years down the line that the gross margins could again come under pressure when the product mix changes?

Bharath Sesha: We are continuously working on to make sure, we can mitigate that risk and that is why we introduced margin profiles of new products at a different level. We continue to work on the Solara efficiency machine that continues to deliver cost efficiencies and cost improvements. So, we are acutely aware of such a risk and that is there in every business not just for us and we have constantly on the ball when it comes to planning for such an eventuality and mitigating it before it comes. So, that is on our radar and we do that on a continual basis.

Kunal Randeria: Right, and one more question. Have you seen any kind of pressure on KSM prices?

Bharath Sesha: Again, on a general basis they are stable, on and off we see some variation in some KSM's but on a general basis they are stable.

Hariharan: But on the solvents in the domestic market we have seen some increase in the price.

Kunal Randeria: Okay, your gross margin is fairly resilient so I was just wondering whether the impact is yet to be seen or you already cushioned the impact?

Bharath Sesha: No, we have mitigated it wherever we can with improved yields and efficiencies at the plant operating levels. So, that is what we do on a continuous basis so, that is factored in.

Kunal Randeria: Thanks a lot for taking my questions and all the best.

Moderator: Thank you. The next question is from the line of Ankush Mahajan from Axis Securities. Please go ahead.

Ankush Mahajan: Sir, congrats for good set of numbers. So, as we see that we have one of the highest gross margin in the industry so, just trying to understand what the reasons behind it are and, in this quarter, if you see the other API players I can say the industry and most of them their gross margin has shrunk basically that is on the lower side. So, how we can say and according to them that in the first quarter there was surge in API prices, but it is now stable in the second quarter. So, just trying to understand Sir, why our gross margins are very sustainable and what is the reason they are the highest in the industry?

Bharath Sesha: Yes, as I said the two drivers are basically efficiency machine that we have continues to work on cost improvements. New products, existing products, our mindset is one of looking at cost efficiency daily, that continues to yield benefits. The second is that, our growth has been through very good utilization of our capacities allocating them to more in demand and higher margin products we see that also as a contributing factor. So, stable, positive pricing environment, good allocation of capacities to products that are higher in margins and in demand coupled with our efficiency machine all three together is why we continue to see very strong gross margin performance.

Hariharan: And also, our negotiation with the suppliers, especially the intermediates or KSM's we are able to achieve price reduction also in our KSM's.

Ankush Mahajan: Okay, Sir we are guiding now 25% to 30% growth for this year, but in the first half the average growth is 10%. So, can we achieve more than 30% growth, what kind of the growth in the second half that we are looking?

Bharath Sesha: So guidance of 30% plus on revenue we are quite comfortable to say that that is what we are going to deliver.

Ankush Mahajan: But sir, still in this first half we have achieved only 10% of growth?

Bharath Sesha: Yes, as I said in my opening remarks the growth will come from three factors, Vizag coming on stream will contribute significantly. Base products we see continued momentum and we have increased our share of wallet with customers that will remain the same and new products will start as I said there are some demand patterns that we saw lower sale of new products in terms of percentage of revenue in Q2 that will normalize. So, all three factors will enable us to deliver what we have guided which is 30% plus revenue growth year-on-year.

Ankush Mahajan: Sir, can you throw some light on the Ranitidine and what are the new products that we have launched in the first half?

Bharath Sesha: So, on Ranitidine as we are all aware that we work with the authorities they have issued new guidelines on Nitrosamines on a general basis which we are adopting and following. Ranitidine currently we do not sell for the US market there are couple of other markets that still have opportunity for us to sell Ranitidine, which we do in consultation with our customers taking all the quality precautions in place. So, that is the answer on Ranitidine. In terms of other products other drivers that we have done in terms that continues to be what I guided earlier we see good demand picture for that also going forward.

Ankush Mahajan: So, how many new products that we had launched in the first half?

Bharath Sesha: So, two DMFs we have filed in the first half, that is the two new DMFs that we have filed and when you say product launches I am trying to understand what do you mean by that?

Ankush Mahajan: I mean any new product that we have launched?

Bharath Sesha: So, we continuously enter new markets with existing products and we continuously do that and in terms of new filings we have done two new filings and two new products we have done validations sales in the first half so that kind of what we have done in the first half.

Ankush Mahajan: So, can I get the name of new products?

Bharath Sesha: We specifically do not mention product names here so.

Ankush Mahajan: Sir, how is the prices for Ibuprofen last six months?

Bharath Sesha: As I said, I do not want to get into specific product details but again our Ibuprofen is strong based on our long-term agreements with customers, three decades of experience that we have in this product, so we are positive of the Ibuprofen business.

Ankush Mahajan: Sir, IOL and Granules their gross margins have really shrunken in Ibuprofen I think they have also one of the Ibuprofen revenue composition so any specific reasons our gross margins are higher, and their gross margins are on the lower side?

Bharath Sesha: You would appreciate that we cannot comment on other company's performance or results, we can talk only on our business model which I have shared with you in terms of Ibuprofen.

Ankush Mahajan: Thank you Sir. That is all from my side.

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

Ashish Thakkar: Thanks for the opportunity. Since the last six months to eight months during this COVID times, did we see any tectonic shift in the region wise business that is coming to us?

Bharath Sesha: So, tectonic is a big word so let me not use that word but yes we have seen the shift in business I mean part of our growth in the regulated markets space comes also from supply chain de-risking of our customers and put into the context we do not need a tectonic shift necessarily out of China or another country for us to grow the API business. Incremental shifts are sufficient because we offer something in terms of reliability, long-term sustainability, credibility, peace of mind that I think is sufficient for us to grow our business significantly. Tectonic is a strong word as I have said but from our perspective we have seen a healthy shift and it is increasing and it is strong and widespread.

Ashish Thakkar: Okay and your venture like you are putting more things like you also have said that you want to expand deeper into the CRAMs part of your business, so at any point in time since you have a strong backward integration on the API side, would you be also comfortable going into the agro-chemical side of it?

Bharath Sesha: No, that is not in the scope currently, so we are not considering that.

Ashish Thakkar: So, just last one question, again on Ibuprofen, so you know obviously Vizag new capacity is coming up, so is it incrementally for a new customer or these are for the current clients?

Bharath Sesha: Both. So, we will be able to support increased volumes from our current customers which has been a longstanding demand from them, that they need more capacity from us so we will be able to fulfill that and we also are going to target quite some new customers and we are already successful in the first few markets where we have addressed these opportunities. So, both.

Ashish Thakkar: So, what is happening in this market because almost all three to four players based out of India, all are expanding their capacities, so is someone moving out of the market in the global markets, what is happening really?

Bharath Sesha: As I said, assuming you are asking for Ibuprofen so let me not get into who is leaving or who is entering, we are strong with our position, we are clear about where we will grow and who we will grow with and we are secure about that and we are positive about doing that in the coming years.

Ashish Thakkar: So, you are positive that your capacities will be sold out, right?

Bharath Sesha: Yes, that is the plan.

Ashish Thakkar: Okay. Fair enough. Thank you so much and best of luck.

Moderator: Thank you. The next question is from the line of Saket Malhotra from Beta 2 Alpha. Please go ahead.

Saket Mehrotra: Thanks, so much Bharath. Great set of numbers. My first question is more to do with the CDMO and CRAMs space, so while I understand that Solara is focused on CRAMs and your parent side is more towards CDMO, so do we see any potential conflict in the business or will it be more to do with sale a synergies between the two companies.

Bharath Sesha We do not see any conflicts in business models what strides is in, we are doing the CRAMs business and we do not see any conflict there.

Saket Mehrotra: Okay. In terms of DMF filing, I saw that one of the DMF that we filed in H1 is related to the renal care, so are we seeing like lot of interest globally or do we plan to commercialize this in the domestic market as well?

Bharath Sesha: Sorry, can you say the name of the product again, I missed it.

Saket Mehrotra: So, in terms of the DMF filing that we have done in H1, one of the products that I can see is Sucroferric Oxyhydroxide which I believe has an application in renal care, so are we seeing a lot of interest globally or do we plan to commercialize this, what I basically want to know is what is the sense between the domestic and the global market?

Bharath Sesha: It is a strong product globally and in the regulated market it is a very strong product and that is what made us chose that product in our pipeline, so we are bullish about the demand that our product will generate in the coming years.

Saket Mehrotra: Okay and in terms of the domestic demand do you see any potential application here?

Bharath Sesha: I think that is a question which need to be answered by our formulation customers but from our perspective we see a strong demand for it particularly in the regulated markets and we have had discussions with our customers where there is interest to take this to the market.

Saket Mehrotra: Okay. While you have answered this question earlier on the potential inorganic targets but given the whole uncertainty right now we are seeing a lot of businesses close, we are also seeing a lot of API businesses really stepping the pedal in terms of increasing their market share, so like is there a timeline that okay within the end of this year or may be early next year we will be able to do that because obviously we also have the cash on books as of now, so do you have any sense in terms of a timeline for this?

Bharath Sesha: Difficult to predict as I said it is one of our key strategic priority so we spend lot of quality time on it and we are very engaged with it. I do not want to have a guess about timeline from this and I am sure you would appreciate that.

Saket Mehrotra: Sure, and finally little to do with the financial house-keeping. I can see there was an ICD which was of around Rs.50 Crores which was repaid back in September, so going forward do we see this happening again or can we see that okay these practices more or less can stop?

Hariharan: Just to clarify this was approved by the board during March and it was repaid during the June itself and we have clarified in the last conference call or last quarter press release and there is no other ICD given subsequently.

Saket Mehrotra: Okay. I was coming more from the point that in terms of the cash flow I could see in your cash flow statement for September there was a repayment so that is where I was coming from?

Hariharan: That is correct. In the June quarter press release itself we have clarified that this has been received before June itself and it was specific purpose given and we got it back and there is no more transaction like this in the near future.

Saket Mehrotra: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Amar More from AlfAccurate. Please go ahead.

Amar More: Sir, few clarifications, most of my questions are answered. Sir, you indicated that the gross margins range which we are comfortable with is in the range of 50% plus or minus 2%.

Bharath Sesha: Mid 50s plus minus 2%.

Hariharan: To clarify 53% plus or minus 2%, am I right?

Bharath Sesha: Yes, mid 50 is what we have guided to last time also we said plus or minus 2% from where we were so we are saying mid-50 plus or minus 2% is what we are looking as a threshold.

Amar More: Okay and secondly Sir now after the phase 2, what are our plans for the capex?

Bharath Sesha: So, as I said we have acquired land in Mysore that will be something that we will look at in terms of making further investments for the technology platforms that we are developing now, we will have to invest capex and we are currently in the process of evaluating location and type of capex that is needed. These are exciting new technology platforms that we are developing so that will also warrants some investments from us in terms of capex.

Amar More: Okay but then any numbers Sir for the same?

Bharath Sesha: No, we are still in the evaluation phase and once we finalize that, we will definitely guide accordingly.

Amar More: Okay and Sir in this particular quarter, most of the growth was driven by the volume but any breakup of the volume and pricing growth I mean how much would have come from the pricing in this particular quarter?

Bharath Sesha: So, we would leave it as we guided in terms of the total revenue and we have said most of its volume and typically not splitting it between the two at this stage.

Amar More: Okay. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Deepak Mehta, an individual investor. Please go ahead.

Deepak Mehta: Good afternoon Sir. Great set of numbers and congratulations once again. So, my question will be around gross margin only. So, if you see right now we are expecting 50% around gross margin, so our new facility in Vizag, which is more advanced and I think there will be more cost optimization so what we can expect gross margin from this new capacity plant?

Bharath Sesha: So, as we said overall I mean I will not comment specifically on our facility but overall as I said that mid-50s plus or minus 2% is what we are aiming for in terms of gross margin levels and your point is very valid as this facility gets better utilized we will see an increase in the margins for the particular facility, but that is the general comment and we would not like to specifically mention gross margin per facility but overall as a company this is what we would guide at.

Deepak Mehta: Okay and my last question would be around the demand from outside of US market, how is the demand from some big pharma company from Europe and Japan?

Bharath Sesha: We see very strong demand, Japan we are doing very well, we see strong demand. Korea we are doing very well, we see strong demand. Europe, we have done well. So, yes across the board in the regulated space we see strong demand as I said earlier this whole de-risking of supply chain has provided us opportunities with our key customers to do more with them and that is also what we see in terms of both demand and our revenue growth.

Deepak Mehta: Okay. Thank you so much and best wishes for the coming year.

Moderator: Thank you. The next question is from the line of Palak Agarwal, an individual investor. Please go ahead.

Palak Agarwal: Sir, do you see any API price disruption from China again and what are the price difference level in China and India for the same?

Bharath Sesha: It is very difficult to answer that one at a broad basis generally the fact that we are growing revenue on increasing share wallet competing with other API players tell us that we are at a good pricing level and I think more and more we should evaluate pricing not as a standalone metrics, but balance pricing and reliability, which is what our customers are increasingly doing so the metrics of reliability pricing we are well positioned as Solara and we will continue to be extremely well positioned on that. Prices of our competitors I cannot comment on but generally from our perspective we are very comfortable with this metrics between the liability and the pricing.

Palak Agarwal: Thank you.

Moderator: Thank you. The next question is from the line of Vaibhav, an individual investor. Please go ahead.

Vaibhav: Sir, Vizag we had about Rs.250 Crore as the total capex between phase 1 and phase 2, correct?

Bharath Sesha: Yes.

Vaibhav: So, going by it 1.7 the asset turnover ratio, at a full capacity it should around 425?

Hariharan: Just wanted to clarify the investment is in two phase the multipurpose plant and the dedicated plant for the large volume product so at this stage the large volume plant is ready, the multipurpose plant is just getting commissioned. It will get commissioned during the March of this current financial year. So, next year the revenue growth is only for the big plant that will be there, the multipurpose plant it will take place in FY2023.

Vaibhav: What will be the total capex for the current Phase 1?

Hariharan: Rs.180 Crores.

Vaibhav: Got it. Lastly, can you give some sort of guidance on FY2022 revenue and margins, ballpark?

Bharath Sesha: We will come back to you on that, at this stage we do not have anything to add on that.

Hariharan: We are focusing on delivering the current year commitment.

Vaibhav: Got it. Sir, any sort of color on CRAMs like when, what kind of revenues we have or we yet to start and if that is the case then you know by when we can start delivering?

Bharath Sesha: So, CRAMs already forms I mean as we guided before somewhere close to the 10% of our revenue already comes from CRAMs. I do not want to say specific numbers in terms of growth etc., because it is an incubation business, we are developing it, we are focusing on the right things, getting the right customer base, getting the right number of enquiries, working with the right customers in terms of the right product etc., so I am not going to give you specific number but I can say that it is tracking really well, we are adding new customers every quarter, we are adding our enquiry basket every quarter and we are quite happy with the way it is tracking for the future.

Vaibhav: Sure Sir. What is the gestation period like when you add a customer like how much time do you think it takes normally to start the revenue?

Bharath Sesha: Six months to nine months.

Vaibhav: Which tells me that probably next year we should see more revenues from CRAMs.

Bharath Sesha: Yes, that should be case.

Vaibhav: Thank you.

Moderator: Thank you. We move onto the next question that is from the line of Alankar Garude from Macquarie Group. Please go ahead.

Alankar Garude: Thanks for the follow up. Sir, you mentioned about Mysore and acquisition of further land there, so just wanted to get some clarification as far as what are the backward integration plan because Mysore is an intermediate facility right so I am assuming the expansion also would be on the intermediate side?

Bharath Sesha: The answer is we are potentially looking at both APIs and intermediates there and that is why we are upgrading the quality system to world class standards in Mysore. As you rightly pointed out Alankar, we are looking, and we continuously look at wherever there is a strategic need to backward integrate we will do that and we will have the capability to do that in Mysore and Mysore we also expect will make APIs for us, so it is both that we will do there.

Alankar Garude: Understood. The second question is Sir, the changes which happened yesterday on the PLI scheme, would we be more open to looking at this scheme after these changes or these changes do not change our plans at all?

Hariharan: We are already looking at this even before this amendment what best can be done, we are in the process evaluating the same and we will be filing our application before the due date and the amendment made is a very good amendment and it will also support us to look further products in the basket. They reduce threshold limit for the certain products for the investment so there are some pipeline products which we are currently looking at it and we will be making proper decision during the next week and then we will be completing the application before due date by end November. It is a good government initiative.

Alankar Garude: Okay and the last question from my side, globally most CRAMs companies have seen a significant increase in the valuations for the last may be six months to seven months, can it be an impediment for our acquisition plans?

Bharath Sesha: I think so first absolutely you are right but again as I said for us we are looking at science and scales so if there is a right fit and a right opportunity we think we will get it at a right valuation and that is what everyone is ready to do. It is very peculiar for me to say yes or no, we are assessing all the opportunities that come our way, we will guide when we get a little bit more into the process of understanding specifics, but Alankar, your point in terms of this I mean it is a fact that some valuations have gone up but that is again a very speculative for me to comment on how would that impact Solara.

Alankar Garude: Fair enough Sir. Thanks, and all the very best.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Bharath Sesha: Thank you everyone for joining this call again. All of us here at Solara, wish you good health for you and your near and dear ones and I hope we have sufficiently addressed your questions during the last hour that we have been interacting. Wish you the best going forward. Thank you once again.

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