"Solara Active Pharma Sciences Limited Q3 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Solara Active Pharma Sciences Limited Q3 FY2022 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note this conference is being recorded. I now hand the conference over to Mr. Abhishek Singal. Thank you and over to you Sir!

Abhishek Singal: A very good afternoon to all of you and thank you for joining us today for Solara Active Pharma Sciences Earnings Conference Call for the third quarter and nine months ended Financial Year 2022. Today we have with us Raj - MD and CEO; Bharat - Outgoing MD and CEO and Subhash - ED and CFO to share the highlight of the business and financials for the quarter. I hope you have gone through our results released and 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 may be forward looking in nature and must be viewed in relation to the risk pertaining to our business. After the end of this call-in case if you have any further questions please feel free to reach out to the investor relation team. I now hand over the call to Bharat to make the opening remarks. Over to you Bharat!

Bharat Sesha: Thank you Abhishek. Good afternoon everyone. It is a difficult day for me personally as you have read probably by now in the press release I have decided to step down from my position as MD & CEO of Solara, as this decision was not an easy one to make especially given that we are navigating through a difficult phase while I am fully confident that we will be moving into a normalized situation shortly.

I am very, very confident under the dynamic leadership of Raj, Solara is poised to regain its momentum and get back on track to reach its long-term aspirations. When I first came to Solara in December of 2019 the word COVID was unknown to this world. In the period that I have been here we have navigated three COVID waves and uniquely challenging market situation, we have commercialized our flagship site and initiated a strategically important merger. All this was possible due to the fantastic employees of Solara and the amazing partnerships we have built with many business partners across the globe. These are the foundations of all that we do and all that we will do. I am also very proud to say that more than 500 million people globally every year take formulations with Solara ingredients and we enable a healthier tomorrow for them. This purpose is what drives us every day. I would like to greatly appreciate the support and guidance from the Board of Solara who have been great partners and a special word of appreciation from Mr. Arun Kumar - Founder from whom I have learned so much. I want to end by saying that Solara's best days are ahead, and I will be cheering for Solara no matter where I am. Thank you so much now, I would like to hand you over to Raj.

Raj: Thank you Bharath. I would like to appreciate your contribution and place on record the efforts that you put in for the growth of Solara and wish you all the luck for your future endeavors.

Good afternoon everybody. Thank you for joining the call today. On behalf of team Solara, I wish you and your loved ones good health and wellbeing. Before we delve into the business I would like to share that Solara has now reached nearly 100% vaccination for the first dose and 99.6% for the second dose. We continue to adhere to all the safety and health protocols for minimizing the impact of COVID and that is well managed.

Let me start with a bit of background on the context of our reported Q3 numbers. In the last several months, multiple products experienced continued demand stress, especially in the regulated markets. Our efforts to grow in the less regulated markets led to increased share of channel partners; however, significant pricing pressures and low demand resulted into a stranded inventory across the value chain. To ensure profitable growth and stable margins in the medium-term a strategic call to limit sales via the channel model and to move to customer sales, direct end-user sales has been taken. We will continue to make select channel sales basis on the history of the relationship with us. To that extent, we have taken a one-time impact in Q3 both the top and bottom line by calling back some of the channel inventory though there was no obligation to take it back. We expect the situation has bottomed out on the demand side and the prices will normalize over the next few quarters. Raw material and logistic costs continue to be volatile leading to additional pressure on the margins. I want to now talk about the Q3 performance and give you a flavor of the underlying drivers. On the business axis, a few molecules such as Ibu, Oselta and Succinyl have seen a decline in Q3; however, most of the other regular molecules business has remained steady. We continue to gain momentum on new product validation and filings thereby securing the key elements of our growth strategy. The CRAMS business has been trending well and has grown well with a year-on-year sale with 43% growth. Ibu's performance was muted as the market demand was the lowest we have seen in recent years. We anticipate that the destocking process across the value chain will mostly conclude by the first half of the FY23 and the situation will likely normalize thereafter. Also, with the delayed approvals of Molnupiravir and the demand decline for Favipiravir the COVID product portfolio was unable to fill the revenue gap we had anticipated. In light of all these and the one-time channel inventory impact, the financials of this quarter are: Revenues of 1051 million and EBITDA of Rs.940 million negative leading the PAT negative of 1399 million. We expect gradual business recovery from Q4 and normalization of growth momentum starting from H2 FY2023.

Coming to the salient point about this quarter’s performance, Ibuprofen facing twin challenges in terms of continued demand shift as well as price volatility, volume declined by 1200 metric tons in this quarter. This has led to lack of operational leverage, impacting margins. Input cost pressures from critical raw materials, KSMs, and solvents such as IBB and Sodium Dichromate coupled with logistics cost increases further added to the margin pressure. We are taking all the measures possible on both these aspects including the short-term inventory buildup in key raw materials and optimizing the logistic costs wherever possible. Non-Ibu business barring a couple of products is trending well. The views as shared in the past for sustainable medium-term growth with consistent expansion on EBITDA, We have continued our operational excellence initiatives and continued to see opex performance getting more efficient by the quarter. The multipurpose plant at Vizag site is on track for the ramp-up in Q1 FY2023. The backward integration for Ibuprofen will be operationalized in Q4 and will scale up in Q1 FY2023. Our CRAMS business is having good year and our margins tend to be much higher than our generic business. We have added four new customers demonstrating good customer attraction and highest of our business growth in this particular section. We expect that we will have a year record growth to the CRAMS segment. In the CRAMS business we have been focusing on science-based differentiation via additional capabilities, two new proof of concept technologies this year will ensure that the growth momentum continues in the coming year. Our regulated filings are on track and expect to file around 10 plus for the current year. We are dealing with a unique situation and performance setback is expected to be transitory. We are confident that we will be on track to deliver on our long-term goals. On the merger, we have tracked well on our exercise of identifying synergies including manufacturing, R&D efficiencies, procurement, cross-selling opportunities and opex efficiencies including productivity. The merger process with NCLT is going as planned along with the timelines communicated last time. We shall share updates in the coming quarters. The full integration benefit is expected in the next 12 to 24 months. Requesting Subhash to share some details on the balance sheet and key ratios.

Subhash Anand: Thanks Raj. As communicated by Raj. Decline in revenue during this quarter mainly due to continued demand softness in Ibu, weakness in some of the key products and delay in approval and low demand of COVID portfolio. In addition, as shared in the last quarter call, we have shifted our sales focused towards direct customer sales for a better margin realization. To implement that strategy, we took a strategic call to significantly limit our channel engagement, while there were no obligations to take back the stranded inventory, but we felt that this is the best course of action as demand recovers. To ensure we have control on price realizations in the coming quarters, we felt that it is an appropriate and right strategy for us to take back this inventory and start controlling our destiny. This was also because we are seeing our demand revival happening and channels carrying an inventory was creating a conflicting situation as the price they were offering was at a lower level. So, we felt it is the right thing for us to pull it back and have control over the situation and start at a much better space where we can make the price realization and recovery much faster for us. That has led to one-time sales impact in Q3 which will get normalized in Q4.

Coming to working capital, our working capital is up by 306 million during this period, basically due to the COVID portfolio mix. We have started seeing improvement in receivables, receivables down by 2240 million; However, inventory is up by 1785 million, primarily led by lower sales as well as the inventory return what we have taken in this quarter. We expect to take one or two more quarters to bring inventory to a normalized level. Lots of actions are currently in execution stage to bring the inventory and the working capital to a normalized level. The company is working on rightsizing the working capital, taking various initiatives like adjusting production in line with demand, COVID inventory expected to be sold in Q4, and focusing to improve the sales mix from distributor to end customers in LRM markets. All these actions that we spoke about will see a result partially in Q4 with a full impact in the next couple of quarters. Capex for the nine months was 1775 million. It continues to reflect our focus on growth-led investment. Asset turns at 1.3. The higher working capital has resulted in net debt moving up from 6915 million to 8912 million over the course of the last quarter. The above trends are expected to normalize over the next couple of quarters. With this, I hand over to the moderator to open the forum for Q&A.

Abhishek Singal: Vikram can we take the Q&A please.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session. We have a first question from the line of Kunal Randeria from Edelweiss. Please go ahead.

Kunal Randeria: Hi! Good afternoon. I did not completely understand what is the strategic change that you have done has led to such a decline so did you stop selling to all your clients in both regulated as well as developing markets?

Raj: This is more related to our stocks with our channel partners. Since the demand was less, the channel partners were also having stranded inventory, and this led to a consequent pricing issues and conflict in the market place as they also started competing with the company. So, we have taken back the sale from the channel partners, this is not affecting the regulated markets or the regulated customers.

Kunal Randeria: What I am not able to reconcile is, so CRAMS has done very well you have shown some I think 74% growth or something and I think CRAMS last year was 10% or so of sales, which means this CRAMS has grown the API business would have gone down by around 85%, 90% or something like that, there was so much inventory in the channel that you have to take such a large amount back it is a bit of a surprise?

Raj: It is not just a channel sales inventory it is also that the demand for Ibu had come down substantially and we also take a conscious call not to compete with the channel partners and rather prefer to take a hit so that we can have a demand stabilization in the coming quarters, otherwise the conflict with the competing channel partners, who has our own products would have actually drawn the problem for a longer time.

Kunal Randeria: I am sorry to probe this a bit more, but ibuprofen would have been what 30% or so of your business and so it has to be a lot of other molecules also, so has the pricing gone down in a lot of other molecules also?

Raj: There is an impact in a couple of other molecules where the demand has also gone down and because of the COVID scenario offtake of these molecules from regular customers also seen a decline.

Kunal Randeria: In your presentation, you have mentioned that you are getting some enquiries for ibuprofen also going forward we would just like to understand at what price point is it now coming is it substantially lower than what it was let us say a year back or so?

Raj: Yes, Ibu pricing has come down substantially. It is a double whammy in the terms of raw materials prices gone up and sales has come down that is why the margin effect is much more visible, if it is only sales price coming down it would not have been as bad, but even the raw material price increases was also substantial.

Subhash Anand: For clarity of everybody let me just make the revenue decline clearer so we all understand what happened. There are three things which have impacted our revenue in this quarter: One, the Ibu demand softness that we spoke even in our earlier communication. Normally we do sell our full capacities and most of you are aware that Pondicherry itself has an annual capacity of ~5000+ MT, but this quarter because of demand softness and we decided to go soft on the less regulated markets. To clarify, the normal demand for Ibu itself was much lower and we sold almost one-third of normally what we used to sell in Ibu in the past. In addition, we also decided to reset the sales policy to go with a direct customer approach reaching out to end customers to have better control of sales realization and also ramping up sales much faster which also has an impact and the sales return of around 120-130 Crores was taken in this quarter. Third thing is that, as we all know, there was a delay in some of the COVID therapy approvals that we were expecting in Q3 end which got delayed towards the last part of December and that sales could not get completed in the Q3 and has impact of revenue decline. Had these three factors not played out, we would have been on a normal sales trajectory, but it was prudent for us at this point of time to reset our sales policy, reset our go to market approach to ensure we do not continue to hit our coming quarters. We felt it is prudent for us to go back, take a control of our destiny and make sure our revival is much faster rather than going through a slow revival process and competing with the channel with our own product in the less regulated markets.

Kunal Randeria: Just one more before I get back in the queue regarding Bharat's resignation is it something that was always been in the work since the Aurore deal or is it something that put everyone by surprise?

Bharat Sesha: Let me answer that. I think I have been working very closely with Raj over the last few months ever since he joined the Board of Solara. So, it was not explicitly planned during the deal. We have been working very closely together, and as it is also stated in a press release I am leaving to pursue opportunities outside the company, but I leave with full confidence and full optimism for the future and that is kind of the process that we went over the last few months.

Kunal Randeria: Thanks for answering my questions. I will join back.

Moderator: Thank you. We have the next question from the line of Mitesh Shah from ICICI Securities. Please go ahead.

Mitesh Shah: Thanks for taking my questions. Can you guide us that how would we see the revenues in Q4 and then after in FY2023 I know that you said that but like with this channel inventories which you have called back that will completely return back to Q4 or it will take time and the ibuprofen how is the scenario we can see in next quarter and then after?

Subhash Anand: Let me take that question. In fact, I just spoke about Q3, had these one time impacts not been there we would have been at a normal level, now we think we have done all the right thing which was supposed to be done in Q3, we are at a stage where we are ready to take off. Further, As Raj just talked about a couple of things as , on Ibu revival, the order book what we have at this point of time is at a much higher level than what we used to have in the last two three quarters. The traction or I say the number of enquiries has gone up. So we do see things on the Ibu front getting revived and expect better Q4 and all our early signs are directing us towards that giving us a lot of confidence, giving us confidence of improved Q4. Our CRAMS business is doing well and that continues to perform well even in this quarter. Other thing which is giving us more confidence, some of the COVID portfolio delay which we have seen in last quarter, now expected to move that within this quarter. All these things which I just spoke about are giving us a lot of confidence that from this quarter onward we can be around pre-Q3 level revenue what we were clocking.

Mitesh Shah: What about the margins you are still facing the raw material and the transportation issue, how about the margin in Q4 and the pricing in the Ibuprofen as well?

Raj: I think we will devise the margin profile between Ibu and non-Ibu, our non-Ibu business continues to work on the margins that we were doing before the Q3. So, it is ibuprofen margins which have come down basically because of the demand stress and the price softness in the market is one issue, second is a rise in two critical KSMs. So, we have to see the price stabilization in the Ibu raw materials. We hope to see some amount of consistency coming in this quarter both in IBU pricing and raw material cost, but in terms of demand stabilization, we see some stabilization happening in this quarter for us.

Mitesh Shah: Thanks a lot Sir. That is it from my end.

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

Nitin Agarwal: Now given the disruption which is there in H2 and partly it was there starting from Q2 onwards it makes it very difficult for us to look through in terms of how we should look at the potential of the business so while I think you are not in the process of giving guidance in a generic sense, but can you help us guide a little bit now in terms of what is the revenue potential of this business as it stands today the COVID uncertainties around the portfolio with Ibu demand uncertainties being there in terms of a broad range in terms of where can the business be from a topline perspective next year, if before and then sort of grow and make it a base to grow onto from there on?

Subhash Anand: In terms of next year, let me not give a proper number at this point of time because we are still firming up our profit plans for next year, but generally if I talk about how the trajectory looks from here, we expect to be at a normalized quarterly revenue when we exit from this year. We do have new products which are coming and adding to our next year base plus whatever we launch in this year, they will be in a ramp-up phase. Also, with the Aurore merger now coming to a stage where actions will be visible to both sides which is going to add to our overall growth for next year.

Raj: So, I think I will take the questions to one more level as well. In the non-Ibu business we are deepening our customer concentration for every product so we hope to build significant traction of penetration for the non-Ibu products that will give us a fairly good reasonable sustenance and on the Ibu sector what we are trying to do is consolidating the quantum of sales in a market scenario so what we are trying to do is to see that our quantum of the sale goes back to our pre-Q3 level and consistency is what we expect to come back into the Ibu sales. CRAMS will continue to grow, and we hope to see better traction for next year also.

Nitin Agarwal: If I were to say, just try to summarize it from understanding we are looking at least a 400 Crores quarterly run rate analyzed starting Q4 onwards and running into the whole of next year plus the upside from the new launches plus whatever upside comes through from the Aurore merger is that the right way to look at it?

Raj: Perfect that is the best way to look at it.

Nitin Agarwal: That is helpful and secondly from a gross margin perspective Raj now in the context of where we are what do you think at a range is the gross margin for the business?

Subhash Anand: In fact, the long term range what we communicated earlier, we will continue to have a gross margin range of around 50 the kind of range and that is what we spoke all the time and we are confident once this raw material volatility and IBU price issues settles which we expect to happen soon we will be back in our normal range of gross margin.

Nitin Agarwal: Which is 52% to 54%?

Subhash Anand: around 50% + kind of a range.

Nitin Agarwal: 50% okay.

Subhash Anand: depending on Ibu pricing yes, we do see some quarters may have a challenge because Ibu pricing will take some time to reach a normal level. So, in the first couple of quarters we may see some challenges but if you are looking at the midterm scenario, this is a range that is achievable for us.

Raj: So what we are going to do is that on Ibu we are adding a lot of new customers so what we will do is to make sure that the complete capacity is utilized and the pricing will be linked to the markets the way it happens but in terms of capacity utilization we expect it to be a complete capacity utilization that is the effort we are putting in onto that.

Nitin Agarwal: Raj we also had the backward integration on Ibu coming through what is the status on that?

Raj: We are doing some trial batches in this quarter with a new facility, but I think we expect to commercialize in Q1 FY2023. So that will help us to have some impact leverage on that.

Nitin Agarwal: Lastly from a business mix perspective our over-dependence on Ibu has caused challenges for us this year along with the dependence on the COVID portfolio given the fact that the COVID portfolio is fairly uncertain to call in terms of its longevity how are we looking at when you look at the business the non-Ibu, non-COVID portfolio how do you see what proportion do you think that business should be would sort of settle down going forward?

Subhash Anand: In fact if we see COVID yes as you say it is a seasonal and it is not linear every quarter so we also are cognizant of that part so in our plans for next year we are in discussion to restrict the contribution of tactical business, We are not expecting or building a very high contribution coming from tactical business, but non-Ibu is the place where we are seeing or expect a growth to come in next year primarily contributed by the new product what we have launched or what we just commercialized

Raj: See while Ibu would continue to be a very important product for us we would definitely see progress our way as all the non-Ibu business would see a steep growth. That is what we are aiming for. We do not want to let go of a market traction in the product as we also suffer for that, but our focus will be a deep dive into all the non-Ibu businesses to make it grow as much as possible in every territory. So, one of the other things we have done as risk mitigation is, we are also trying to focus on cutting our opex cost which will help mitigate the Ibu margin loss and this opex reduction that we are working on will give us probably some amount of comfort in terms of risk mitigation of the margin loss.

Nitin Agarwal: If I squeeze the last one when do you think would be in a position to share some more details around the Aurore contribution and the synergies?

Subhash Anand: In fact, we are just waiting for shareholders' approval. Once we have it in place, we will start sharing Aurore's performance as well as consolidated numbers. So, we expect that to be somewhere in Q1 next year we should have that in place.

Nitin Agarwal: Okay thank you.

Moderator: Thank you. We have the next question from the line of Tejas Lakhani from Unifi Capital. Please go ahead.

Tejas Lakhani: Sir I would like to understand that when we had the second-quarter call which was in the middle of November you had clearly stated that there is a deferment of shipments of Ibu of almost 600 to 650 metric tons destocking with less intensity normalization was likely to happen in three to six months that was clearly what the management guided the street or informed the street so what I understand and I am really perplexed and quite of course disappointed is an understatement to make but the fact of the matter is that in November and if you looked at when we had the call November 9, 2021, you had already started to implement this so did not you feel the need to communicate to the investor community regarding this change of part or change in policy that you have?

Raj: I think at that time when we communicated was more about the regulated market sales and the softening of demand in that but we really did not expect the amount of hit that we had on the product sale in the less regulated markets and the other markets because of the competitive bidding our own product what we had versus the inventory in the market and the pricing was significantly getting affected in the less regulated market because they are competing with our own material, but the moment we saw that it was still not stopping we did not want to prolong misery that is when we decided to call back the material rather than do anymore sales.

Subhash Anand: Because even in last quarter's communications we have indicated our strategy to move from distributor led sales to direct customer and as a company we decided to change our sales policy but we were expecting that will be able to co-exist and they will able to liquidate their inventory and we will be able to move forward with our direct sales approach, but over a course what we realized that this is actually creating a conflict because finally end customers is for both of us is the same and it was good for us to remove that conflict so we can take a control of the situation and run faster. The call taken to take a course correction. Further, we do have indicated we expect our Q3, Q4 to be difficult quarters yes, the magnitude is something which is much higher than what was expected.

Tejas Lakhani: What you are trying to tell us is in the November 9th call you did not quantify the impact being so significant for an investor and it is very difficult to pardon that in just 45 days of the call that you all had that all of this really transpired it is very hard for an investor to really digest this information.

Raj: I think we took this call in December because we saw a substantial price drop in our own customers where we sell regularly and that is when we took a call not offer anymore and it is also called towards the end of the month that we decided to probably call back because the fall in pricing was pretty steep and we were working on a disadvantage by continuing the sales policy.

Tejas Lakhani: What was the quantum of inventory that you have called back can you quantify that?

Subhash Anand: Yes, I in fact mentioned earlier, we have a sales return of around 120 to 130 Crores.

Moderator: Thank you. We have the next question from the line of Bhaskar Bukrediwala from Arthya Investments. Please go ahead.

Bhaskar Bukrediwala: Thanks for taking the question. just building on to what the earlier participant mentioned and your reply on that which you said that you took this call in December, the question is a basic question on investor communication in a world of today where every small order by companies are being reported on exchanges and sometimes they are not even material something which is as strategic and as important and I am sure that this will bring in a lot of positivity to the company also so it was not necessarily a negative thing for the company right, why the company, not sort of at least sensitizing the investors through a press release on the exchange saying that look we are taking some strategic initiatives and that may have some near-term impact on revenue without quantifying it what stopped the company the whole December went, the whole January went what stopped the company in a simple normal communication on that?

Bharat Sesha: Let me respond I think the feedback is well received in terms of communication but once the decision was made for us to sit with our channel partners understand what is really the value chain, how much is being spoken for by the end customers, how much do they have a generally stranded inventory and the various discussions around it were not something that we could get done very quickly so having made a decision it took us a process of various discussions over a period of time before we could assess the total impact of this. While the feedback on investor communication is well taken and well noted and we will act on this going forward, but in this case it was particularly a tricky situation because there were multiple data points that needed to be collated, we needed to make sure it was genuine, we need to make sure this is really the right call for the business, we need to make sure that there is something happening in the channel that they are not loading inventory on to us which they could not sell it is genuinely something that is stranded, so all of this is a pretty drawn out process and that is why we did not want to rush and communicate something which is not fully quantifiable, which is not fully understandable from the investor perspective on what really is this, we also wanted to assure the investors this is a one time so we wanted to be more safe in this and take a little bit more time having said that your feedback in terms of more timely communication is well taken and well received we hope that we will never again be in this situation but if ever there is going to be a chance we will make sure that we are communicating appropriately. Thank you so much for the feedback.

Subhash Anand: As Bharat said rightly, since it was a detailed process and granular discussions with channel partners, it has given us a lot more confidence and we have control over the situation. Had we analyzed at a very superficial level, then that confidence of what we are talking about for Q4 would not have been there.

Bhaskar Bukrediwala: Fair Sir. I think I understand when you make a big strategic move and there are a lot of things to grapple it, it is very easy for us investors to sort of criticizing but I think businesses are never easy to run the whole point was very plain and simple that you are a large company with a lot of people, large admin staff, a lot of investor relations people it just needed one good day to integrate and use the right communication put a small press release to the exchange that is all. I do not think it would have taken a herculean amount of effort to do that if you would have been a small organization it is still understandable, and you took 2000 Crores revenue company and some stalwarts on your Board so for a company of that structure I was a little surprised to see this very, very surprise element coming.

Subhash Anand: your feedback is well taken, we will ensure to act on this and make sure we have more proactive communication from our side.

Bhaskar Bukrediwala: Sir if you can allow me a couple of questions on the business side that will be great. So one question is on the gross margins you mentioned that 50% to 54% is what you will manage and maintain but just a question again, given that you are sort of shifting your business to more direct rather than through channel I am assuming that some bit of channel margins will now get sort of flowing to you and some part will possibly help build your competitiveness through better pricing to the customer if that is the case should not your margins expand and particularly more so as your CRAMS and the non-Ibu business builds up which I am assuming will probably have slightly better margins in your Ibu business?

Subhash Anand: I will say in the mid to long-term yes, both are contributors or levers and will help us to expand margin. Short to mid-term, because we have a pricing challenge, especially in Ibu so that is why we are guiding at lower level of margin and do see challenges in the short-term, but mid to long-term your points are well there, and we have an opportunity to expand the margin.

Bhaskar Bukrediwala: So, over the long-term, you are saying that both on Ibu and otherwise our gross margin should expand let us say beyond 2 to 3 years?

Raj: Mid to long-term yes, I agree with you.

Bhaskar Bukrediwala: Last question Sir what we also understand is in Ibu there is a lot of supply that is coming in, in the industry so even if demand had to revive which as you said is reviving what is your thought on the supply that is coming in and the impact that it could have on your utilization overall industry utilization and pricing?

Raj: Yes, it is definitely a matter of concerns in terms of material coming into India because of the additional capacity and imports both but I think we are also trying to make ourselves one of the few people, vertically integrated in manufacturing to sustain this competition so that is why our backward integration strategy with IBB and IBAP will help us to sustain this competition and we will also expand our derivative sales, we are one of the few companies with entire derivative portfolio and we are doing best to increase the derivative sale and we do not want to give up even with this pricing pressure that is the reason the backward integration pressure will help us to ensure that our capacity maximization strategy works out in this process. If there is pressure that is going to come from the market yes, it is going to come we are not going to deny that.

Bhaskar Bukrediwala: Just one last question you mentioned that your strategy would be to about reach direct so that applies for both Ibu and non-Ibu business investing with our channel partner?

Raj: See the channel partner perspective which you see in India and slightly in European countries would be different, there the margins are fixed it is not buying of material where the channel partners are helping us to do our sale and take a commission so that strategy would still continue. The concept of selling to a channel partner outside and they selling the product would probably be minimal for us, we will do that only with historical channel partners where the relationship is very good and stable.

Bhaskar Bukrediwala: Would you be able to quantify the quarterly business broadly normalized without getting into the nitty-gritty of each quarter the sales that were happening through this mechanism where you would sell to the partners and they would, in turn, sell it to the pharma companies what sort of broad revenue would that have been contributing to?

Raj: No actually I will put it in a slightly different manner for a long time when the Ibu market was in shortage there are a lot of our capacities being focused on the regulated markets, but when the demand softening happens we look at all the other markets and that is where the channel partner roles became more prominent so I think from a historical perspective do not have the continuous relevance from that perspective is what I say.

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

Tushar Manudhane: Sir apart from this 120 Crores sales return maybe that adds up to the existing sales of 100 Crores so that is like a total of 220 whereas the quarterly run rate was about 400 so still there is some gap there, so what would be the reason for that?

Subhash Anand: No, in fact Tushar apart from sales return as I spoke, we have not gone and sold Ibu in this quarter because we were making sure to correct our distribution portfolio and instead of selling it to channel we reached out to end customers since the demand softness was continued to be there. we have not gone ahead and billed additional Ibu in the last quarter. Normally we sell around to the tune of our Pondicherry capacity of around 1300-ton a kind of a quarterly capacity, last quarter without any adjustment since we decided not to go through the channel and to focus on profitable sales, reduce pipeline inventory, we restricted our sales only to that pocket and then demand softness of this Ibu also continued even in last quarter. So, our sales practically were one-third of normal what we used to sell of Ibu and was another piece which has impacted the underlying revenue was the COVID delay approval. Further some impact or small impact came from couple of products like of Succinyl and Oselta which have seen some softness in the export market since there was some inventory buildup at customer level due to COVID so now the inventory now with the end customer is getting normalized. In fact, things that should come back to be at normal level are the three things broadly I talk about.

Tushar Manudhane: What are the two products which you named just now?

Subhash Anand: We talked about Succinyl and Oselta.

Tushar Manudhane: Now secondly if it was more to do with whatever inventory was there in the system either your Ibuprofen or competitors that was the main issue for fall in prices and with this either your action or any which case demand getting stabilized just trying to understand how this change in strategy actually helps, if it was more to do with the inventory in the system?

Raj: So, I think we have seen some green shoots in this quarter and these are from our regular customers also and as we have progressed over the last 30 days we have seen a better offtake and better than expected demand at this point of time. I am not saying the pricing is going to be better, but the demand has at least given us a feeling that yes this could be a better quarter for us compared to the last quarter.

Tushar Manudhane: The backward integration process project was to come upon stream I guess in 3Q, 4Q?

Subhash Anand: Trial production is expected by the end of this quarter, so the trial is going on, but the commercial production is expected from Q1.

Bharat Sesha: It is very crucial for us to complete that within those timelines because that contributes to our margin impact.

Tushar Manudhane: Alright thank you.

Moderator: Thank you. We have the next question from the line of Manish Gupta from Solidarity Advisors. Please go ahead.

Manish Gupta: Thank you for the opportunity. When the Aurore merger was announced there was a number given which is that you are looking at about 100 to 150 Crores of cost and revenue synergies in the context of what has happened in the recent quarter was that a big picture number or do we have some specific numbers now of what synergies are expected?

Raj: That was the big picture number at that perspective on the combined entity but there has been a lot of work that has gone into that to make that operationalized. We are bringing in the operational synergies as we go ahead probably which will get reflected a part in this quarter and a part in the next quarter as well from that perspective.

Manish Gupta: So, Raj could you talk about what are some of the cost synergies that you have seen. What is the quantum we are talking about?

Raj: At least on a yearly perspective basis of ~50 Crores.

Manish Gupta: Okay there are different parts of cost synergy.

Subhash Anand: So, these cost synergies are in multiple buckets but cumulative the amount to come around approximately around the 50 Crores.

Manish Gupta: Could you share where these come in from what areas?

Raj: R&D synergies already being executed where we are trying to make more the things at two places rather than three places and further synergies are in terms of capacity utilization, opex reductions, manpower synergies and operational excellence which results in specific cost across every unit and that is the combined synergy that we are looking at considering experiences of each other and together ensuring the strategy is completed on both sides. At Aurore, we have been doing a lot of outsourcing all that would also stop and a lot of that would now get into the capacity utilization of the Solara so that outsourcing cost would also come down substantially for both sides.

Manish Gupta: Is it possible to get nine-month revenue under the buckets of Ibu, non-Ibu and CRAMS under these three buckets?

Subhash Anand: Normally we do not give a precise number under these three buckets, but broadly if you see our commentary and the way we put it in our investors call, you will have a fair idea how these buckets are, but as a company, we do not share very precise category-wise revenue.

Manish Gupta: Yes. but SubhashJi you will agree that this is quite an extraordinary situation we are in right now where there are so many moving parts, write-offs, guidance and all that so to some extent if you can give some directional numbers it will help because struggling to understand how different parts of the business are growing right now?

Subhash Anand: I take your feedback we discuss internally and see how and to what extent we can share this information, but we will revert to you.

Manish Gupta: Thank you.

Abhishek Singhal: Can we take the last question Vikram.

Moderator: Thank you Sir. We take the last question from the line of Monish Shah from Antique Stock Broking. Please go ahead.

Monish Shah: Hi! Thanks for taking the question. Sir just one question which are these new products that we are talking about so can you name them which are expected to deliver better margins and growth?

Raj: It is not just a new product it is a combination of new products and capacity optimization of the existing products and new markets or new delivery additions for the products that we are having. Some of these products are not sold in many territories so what we are doing is to increase the basket of the products in the various markets also, so it is capacity optimization, new products, and new territory for existing products.

Monish Shah: So, you have basically converted the Vizag capacity of Ibuprofen into multipurpose capacity so from this capacity basically you will be servicing the new products and Ibu as such going forward will be a reduced capacity product?

Raj: See, based on the demand we will be able to go back for Ibu manufacturing in that site, so the flexibility is always there but what we are right now doing is we have got to use this capacity. Part of the capacity is backward integration, part of the capacity is for the multi-product facility which is for validations of all the new products and filings from that site and the pure Ibu capacity for the API that is what we are now doing multiple products, some of the Aurore products are also getting migrated, some of the new products of Solara also getting migrated there so that gives us better cost perspective from a new site.

Monish Shah: Okay, thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for closing comments. Over to you Sir!

Raj: Thanks a lot, to all of you. This is a one-off quarter. We have extremely good confidence that we will bounce back in Q4 with a decent number and going forward FY2023 we will put in a lot of efforts to make that come back, but that is the effort we are going to put in. Thanks, a lot, and we are extremely sorry for this one-off performance.

Abhishek Singhal: Thanks everyone and stay safe. Thank you.

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