"Solara Active Pharma Sciences Limited Q4 FY'21 Earnings Conference Call"

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MANAGEMENT: **MR. BHARATH R. SESHA – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, SOLARA ACTIVE PHARMA SCIENCES LIMITED**
MR. SUBHASH ANAND– EXECUTIVE DIRECTOR, FINANCE & CHIEF FINANCIAL OFFICER, SOLARA ACTIVE PHARMA SCIENCES LIMITED
MR. ABHISHEK SINGHAL, SOLARA ACTIVE PHARMA SCIENCES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Solara Active Pharma Sciences Limited Q4 FY'21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone 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: Very good afternoon to all of you and thank you for joining us today for Solara Active Pharma Sciences Earnings Conference Call for the Fourth Quarter and Full Year-ended Financial Year 2021. Today, we have with us "Mr. Bharath Sesha – Solara's M.D. and CEO, and Mr. Subhash Anand -- Executive Director, Finance and 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 stock exchanges 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 will be forward-looking in nature and must be viewed in relation to this pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to the Investor Relations team.

I now hand over the call to Bharath to make the Opening Remarks.

Bharath R. Sesha: Thank you, Abhishek. Good afternoon, everyone. Thank you for joining this call today. It's with a sense of deja vu that we are all dealing with the second wave of this pandemic now. I wish you and your loved ones lots of good health as we fight this pandemic together. It's somber times and we are fully conscious of this and are taking all measures to support the community and keep our employees safe and healthy.

Coming to our "Results", delighted to share with you that Solara has delivered a landmark year; our FY'21 performance has been one wherein every quarter we've built on the solid successes and the foundation has been laid over the last couple of years. We focused on accelerating growth over the year and we have delivered on that count. This year has been one with its share of challenges. As we all know, it started with the lockdown and a consequent need to ensure our employees were safe and healthy while focusing on living up to our commitments to our customers and to broader society. I'm very proud of how the Solara team has delivered on all of these things consistently day-after-day.

Coming to our "Q4 Results", the diversity of our geographical presence and the strength of our product portfolio enabled us to navigate Q4 quite well. Our Q4 performance was underlined by revenues of INR4,540 million and an EBITDA of INR1,051 million with EBITDA margin of 23.1%. This has led to a PAT of INR566 million. The year-on-year growth of these numbers were 47% on revenues, 74% on EBITDA and 218% on PAT. Our FY'21 performance was underlined by a revenue of INR16,457 million and EBITDA of INR4,004 million with EBITDA margin of 24.3%. This has led to a PAT of INR2,213 million. The year-on-year growth of these numbers were 22% on revenues, and if you exclude Ranitidine it would be 30% growth in revenue, 43% on EBITDA and 93% on PAT.

Let me talk about the "Underlying Performance Drivers" that we have had over this quarter. There has been a strong performance in other markets, continuing increased presence in the regulated markets. We have been able to successfully enter into multiple new customers and markets, including for the production that we have ramped up in Vizag, and I'll come back to Vizag in a couple of minutes.

We've anchored a regulated market presence quite well and we are excited about further opportunities that we are currently in the final stages of concluding with new customers for multiple new products. We've also been successful in maintaining a share wallet with key customers for our base business.

Our costs improvement actions, both in supply chain and in operations continues to be a pillar of strength. And our R&D velocity has increased significantly. This year, we filed eight US DMFs which is double of last year's total and three EU DMFs. The total last year was five between these two. Our market extensions, which I would say as a means of efficient growth for FY'21 stood at 23 across multiple global markets and regions.

Coming to our "CRAMS business", we continue to track to plan on our CRAMS business. We have seen repeat opportunities come in from big pharma companies and we are continuing to deepen our engagement with them. There was a one-off delay in offtake of volumes by a couple of our customers which we are confident will normalize over the coming months. We continue to have very good revenue visibility for the CRAMS business for the next three quarters and overall, we expect the CRAMS business to grow at a faster growth clip than the overall company.

Let me talk about the "Vizag Facility." The commercialization of the Vizag facility is going on in a calibrated manner. We have doubled our utilization rates from Q3 to Q4. What is exciting also is that we have accelerated and are progressing really well towards validating and commercializing a multi-purpose facility at Vizag. This will happen in this Q1 FY'22. This facility will have the capability to produce a COVID-related molecule, Favipiravir. With this facility, commercialization concluding in Q1 between Aurore and Solara, we would have one of the largest capacities for Favipiravir API. This is a great example of how we have nimbly reacted to a very clear need in society and we will bring a product to our customers which is also direly needed by society in record time.

In addition to this, we are also working together with a role on other interesting molecules that include ones that are related to COVID therapy. These initiatives will nicely marry Solara's assets with rapid product development capabilities that both companies possess.

Let me talk about our "Strategy and the Future." A key milestone in the future success for Solara was the recently announced merger with Aurore. Just want to remind all of us this merger has added significant momentum to the execution of our strategy. It is EPS-accretive immediately and it fills in very nicely some of the strategic priorities for Solara. We have already initiated with a leading consulting firm the process of identifying synergies at a more granular level. And once we get the approvals from shareholders we will get into more details and share this with you at the appropriate time. But the initial analysis looks really exciting and bodes really well for our future.

In addition to this, we also make steady headway in developing technology platforms and we are on track for executing proof-of-concept for at least two of them by the end of this financial year.

A couple of new products that we have launched in FY'21 are all set for scale up in Q2, Q3 of FY'22 and I'm delighted to say that we have confirmed orders for the entire year already for these products.

We also have additional exciting products in our pipeline which will be moving into validation phase in FY'22 and will support our growth not just in FY'22 but for many years beyond.

Like to end by saying that we all are dealing with the second wave in India. Various parts of the world are in different stages of fighting this pandemic. There is a need for us in Solara to continue to focus on costs, customers, differentiation and keeping employees safety and health as number one. Our business model of strategically partnering with our customers on a long-term basis, our product portfolio breadth and a solid position that we have in many of our products, will enable us to successfully deal with the market dynamics. I'm very confident that with the depth of our product portfolio, the growth in new products and significant acceleration in our CRAMS business, our FY'22 will gain momentum as the year progresses. I would ask "Subhash now to share some details in Balance Sheet and Other Key Ratios."

Subhash Anand: Good afternoon, everyone. As you have seen in last three quarters, the financial ratios have continued to improve consistently.

Just to share with all of you, the board has recommended a final dividend of Rs.3 per share. With this the total dividend for FY'21 including interim dividend will be Rs.7 per share, that is 70% Yes, the final dividend is subject to shareholders approval.

CAPEX for this year is at Rs.174 crores. This continued to reflect our focus on growth-led investment. Asset turn for FY'21 stood at 1.8x, up from 1.7x in the previous year… in fact 1.8x asset turn is with Vizag, if we take out Vizag because Vizag contributed part of the year, our asset turn stands at 2.1x. This reflects the leveraging of asset and higher utilization of earnings which we are able to achieve during our current year and also reflect the potential of asset utilization what we have in future if we continue to perform the way we are.

Net assets increased by 783 million from Rs.441 crores to Rs.522 crores, contributed by higher receivable this quarter primarily led by two or three reasons I call it, one, yes, the sale in this quarter is much higher compared to last quarter as well as the last year. As Bharath indicated, YoY sale is up by 43%, that has resulted in higher receivable. Other things, our sale to LRM market has increased and LRM market being led by slightly higher receivable days compared to regulated market, that also has impacted higher receivables as of 31st March. Plus, we have outstanding because of GST and export incentives which were expected to be normalized in the coming quarter.

Net debt as of 31st March are at Rs.408 crores after adjusting the surplus cash of Rs.199 crores as of 31st March. While our net debt-to-EBITDA ratio continue to be comfortable at 1x, ROC stands at 17.9%. If we take out Vizag asset, our ROC now is at around 21%, which is almost benchmark compared to the industry. With the healthy balance sheet ratio and fresh infusion of capital and abundant opportunity, Solara is positioned exceptionally well for the future. That's what we have for this quarter on financial ratios and commentary. We can now open up for Q&A.

Moderator: Thank you very much. We'll now begin the question-and-answer session. First question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: Sir, my first question is revenue ramp up from Vizag appear slow and that's reflected in just 4% sequential growth. And you also mentioned about calibration in ramp up of Vizag. So, firstly, can you elaborate a bit on that? And secondly, I think in Feb, you had said that you expect to reach optimal utilization in three to six months from then. So, what would be a revised expectation?

Bharath R. Sesha: Thanks, Alankar. So, on the first question, when I say, 'calibrated', what we were doing is we were placing our product in markets where we had made strategic choices to enter. So, that's what I meant by calibrated. So, our revenue from Vizag has scaled up, as I said the plant utilization is doubled, so last quarter if you recall, I had said roughly around 1/3 was a plant utilization, currently we are roughly around two-thirds. We are fully capable of ramping it up in the next three months. So, the guidance that I gave on full ramp up is still valid. We are currently in the process of the final ramp up phase and we will be on track when it comes to ramping up to full capacity in the same time frame I had indicated last time.

Alankar Garude: So, as of now there are no challenges which you are facing because of the second COVID wave specifically pertaining to Vizag?

Bharath R. Sesha: No, we're not, we have been very, very careful in that, we've tried to take all precautions, so no impact now from a second wave.

Alankar Garude: One follow-up to that. We had also said that we are looking to possibly start the regulated market sales from this facility towards the end of this fiscal. Now with the second COVID wave, is there a possibility of a delay on those lines?

Bharath R. Sesha: So, the picture is a bit hazy currently, because that lies entirely with the regulator but we have a couple of opportunities to ensure that we mitigate that risk. Countries are now more flexible with remote audits; we are hopeful that we will be able to get those solutions in place for us to be able to get regulatory approvals before the end of the fiscal. That's still the operating assumption and we are working towards that thing, Alankar.

Alankar Garude: Second question is we haven't provided any guidance for FY'22 and possibly that's because of the merger. But is it possible to provide any qualitative comments on how FY'22 is likely to look for us?

Bharath R. Sesha: Sure, and you're exactly right, we want to come back to you once the shareholder approval is there and much more detail about the synergy opportunities and the combined entities outlook for the future. That's the reason we have not given you specific guidance for Solara this quarter for the future, but qualitatively, there are three cylinders of growth that Solara has and all three are in good shape and that is basically the base business where share of wallet wise, we are at the right customers with the right share of wallet, new products, I had talked about in my opening remarks, we are excited about a couple of new products that are scaling up this year, we're fully booked in terms of capacity for those products with customer commitments and our CRAMS business where I see strong revenue visibility, stickiness with our customers, particularly big pharma companies. So, qualitatively, I can say we are in the same momentum of growth that we have experienced this year. We will continue to feel that momentum of growth going forward.

Alankar Garude: Can you comment on the status of expansion of the Mysore facility? And any thoughts on our backward integration initiatives for FY'22?

Bharath R. Sesha: So, this will be covered as part of the synergy discussions, Alankar. So, this is definitely one of the key topics that we see synergies play out after the merger, because we have possibilities to backward integrate from both companies products, and we have the land to be able to do it in Mysore. So, we'll come back to you specifically on this question. But it's a high attention point, and we see quite some exciting opportunities there.

Alankar Garude: On that, we had already announced the CAPEX for Mysore, right. So, are we putting that on hold till we firm our merger plan?

Bharath R. Sesha: We have not specifically announced a CAPEX from Mysore. We said we will be building intermediate capacity there. Now, we will just kind of incorporate some of the additional opportunities we get for that intermediate facility and we will be investing in Mysore on the intermediate capacity, Alankar.

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

Sriraam Rathi: A couple of questions. Firstly, on the CRAMS business that you mentioned for the next three quarters, the visibility remains very strong and we're already back on track in Q4. So, does that mean that we will be back to FY'20 level so it could even go higher from that level?

Bharath R. Sesha: So, as we had discussed during the previous concall and then in a merger announcement, the CRAMS business is well on track. So, we will grow faster than the overall company does in the coming period, two, three years. To answer your specific question, will we be back to where we were in FY'21? We hope we will be better than we were in FY'21 in CRAMS business based on the visibility that I have. I'd also mentioned in my opening remarks that a couple of our customers who take quite good products, have good margin and good revenue had delayed their offtake one-time, it's not structural and situational because they had other priorities when it came to COVID molecules, that is also normalizing now. So, I'm quite confident we will deliver good growth in CRAMS business.

Sriraam Rathi: Secondly sir on the gross margins this quarter, we have seen some dip, that is also getting reflected in the EBITDA margin to some extent. Any specific reason for gross margin dip or it is like one-off quarter?

Bharath R. Sesha: So, there are a couple of reasons for it; one is the fact that, we were able to move Vizag product into the less regulated markets obviously had an impact, because that would mean that lower margins that we would have typically gotten in the regulated market, this would be lower. Second, there was less sales to the regulated markets on some of the base molecules and that is entirely related to the fact that people were just normalizing demand after COVID, stocks were being run out by some of our customers. Both these trends we will expect to normalize. So, those were the key contributing factors towards the margin change from last quarter to this quarter.

Sriraam Rathi: Let us say going forward FY'22, is it fair to assume that like FY'21 base overall for the full year of gross margin and EBITDA margin should be sustainable or improve from here on?

Bharath R. Sesha: Yes, so we've always been guiding that we should be looking at the 23, 25 range for EBITDA and we will continue to be able to deliver those types of margins.

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

Cyndrella Carvalho: I guess I had a question on the guidance, but you have already alluded to it that we need to wait for it. Just the other question that you highlighted about the margin dip, could you please repeat that, what is the reason for this quarter gross margin dip?

Bharath R. Sesha: So, I think we've seen that our sales growth in the less regulated markets or what we call other markets is significantly higher this quarter than it was in previous quarters, mainly driven by the production in Vizag, which we were selling in the less regulated markets. That was the key reason because of the sales mix in the two markets that you saw some reduction in margin. And we expect that to normalize as our sales mix in terms of regulated to less regulated gets more into the normal mode over the next few months.

Cyndrella Carvalho: Sir, aren't we seeing any kind of impact of the recently increased raw material prices that the industry is talking about, are we seeing any impact coming on our baskets specifically and any comment on the industry level that you could help us with?

Bharath R. Sesha: So, sticking to Solara, to respond to your question, like with every other oil-based solvent, I mean, we've also seen our share of price fluctuations, but I've been very clear in emphasizing that we have really a very strong cost improvement program that's been running quarter-after-quarter and delivering and we are able to mitigate to a large extent any fluctuations in raw material pricing through better sourcing, through better operations control, better ease, better recovery. So, we're very confident that any blip in prices that would happen, most of it can be mitigated and has been mitigated in the past through our superior performance and cost improvement. So, that will continue to be the case going forward, Cinderella.

Cyndrella Carvalho: But no major impact, because the price rises have been very steep, we've been hearing 200%, 300% rises, so we are well protected?

Bharath R. Sesha: Yes, we are and some commodity chemicals, acetic acid, for example, went significantly higher over the course of the quarter. But we've really been anticipating some of these and we have been taking actions to mitigate costs either through smarter sourcing or better operations. So, we've been able to handle that, and we will be able to do that going forward.

Cyndrella Carvalho: Also around the pricing, I mean, we have seen some price declines in Ibu. But does that have any impact over our businesses of now or you think that our long-term contracting is being protecting us there?

Bharath R. Sesha: So, all our regulated market sales which are mostly on long-term contracts has protected us and we've always taken a long-term view with our customers, and as I've always been saying, when there was a shortage and prices were different then we've supported us and whenever there has been a price fluctuations one way or the other, we worked well with each other. So, we are to a large extent protected. However, in the less regulated space which is all new market entry for us from Vizag there has been an impact on our pricing, but that is normal for the whole market, so nothing specific to Solara. Overall, we are well protected because of our sales mix, our long-term customer orientation and the fact that we are predominantly in the regulated market space.

Cyndrella Carvalho: You mentioned in your opening remarks that there are certain more COVID-related products that you guys are looking at. If you could throw some more light on that?

Bharath R. Sesha: So, I said that bunch of products we're working on, some of them are COVID-related. So, I'll just wait for a couple of months before we really get into proof-of-concept stage and I'll be more than happy to share the specifics with you, Cinderella.

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

Tushar Manudhane: Sir, just extending the question of the previous participant, broadly, how long the contracts are in terms of like number of years if you could highlight?

Bharath R. Sesha: It varies depending on customers, we have contracts that are five to seven years with customers, we have contracts which are two years with customers, so it is difficult for me to put a number to it in terms of the tenure of a contract, but when we say long-term it's typically at least a year if not longer.

Tushar Manudhane: On a ballpark range like what kind of like 10%, 20% kind of price fluctuation you think that can be very well protected on the either side, I mean, the reason to ask is that let's say if the price of the product is $10 and if it goes down to six or five, are we still protected because of these contracts or will we have the repercussions of the prices on the finished goods?

Bharath R. Sesha: So, like with every contract, right, it's never going to be digital that if everything goes high or low that there is no recourse to it, but typically these fluctuations are not happening. So, we are well protected in terms of both margin and revenue by these contracts.

Tushar Manudhane: And secondly, just on the receivable side, over a period of last six months, there have been good increase in the receivable. If you could just explain that sir?

Subhash Anand: In fact, receivables is more so, if you see the kind of a sales mix which over a period of time is happening, our sale in less regulated market or what we call it other market, growth is much higher compared to regulated market. And the credit profile of a customer is very different when it comes to I'll say regulated and non-regulated. Typically the non-regulated market customers work on slightly extended credit period. Since the mix is changing between regulated and unregulated that has an impact on higher receivable what you see on our balance sheet. Second thing, of course, you are seeing a quarter-on-quarter sales growth and even in this quarter 40% YoY growth, that also will have an impact on receivable and that's what is getting reflected.

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

Ranvir Singh: Sir, one clarity on regulated market contribution, what would have been from US if you could break it?

Bharath R. Sesha: So, roughly of our total sales, 30% roughly is in regulated US, North America and Canada.

Ranvir Singh: Sir, why I'm asking this you mentioned roughly Rs.100 crores of external sales to customers in US in FY'20 annual report and in presentation I have been looking this is showing 30% or more than this. So, what is the disconnect?

Bharath R. Sesha: So, there are sales that we make of the API into the US, there are sales that we make of the API to a formulator, who shifts the formulation to the US. So, destination is to the US. So, when we say 30%, 35% , including both. And the reason we do that is the pricing is dependent on the end market of the formulation, not the destination of the API. So, that's why we report it like that. So, when we say external sales, it must have been export sales to the US. This when I say 30%, 32% that includes sales that formulations eventually ends up in the US.

Ranvir Singh: So, we supply to formulator in India and they export it to US market, that is what…?

Bharath R. Sesha: Correct.

Ranvir Singh: What have been the contribution of Vizag facility in this quarter?

Bharath R. Sesha: So, we don't split it by facility to give you the exact contribution, but I can tell you that Vizag currently is roughly around 60%, 65% utilization. And we've already stated the total capacity of Vizag in the previous presentation of around 3,600 tons of Ibuprofen. So, that's kind of where we are in terms of the total output from Vizag.

Ranvir Singh: Okay, but are we maintaining that this facility can give peak revenue of Rs.400 crores kind of sales?

Bharath R. Sesha: Yes, so, 3,600 tons is the boilerplate capacity at Vizag and as I had indicated earlier, we will be able to deliver that and ramp up to that capability as we had guided before in six to nine months time and that's still what we are tracking.

Ranvir Singh: Because of two-third capacity utilization, the sales would have been significant what I understand if I consider 400 crores peak revenue?

Bharath R. Sesha: So, it depends on which market that we are going and the average price assumption you have maybe on a certain market level. So, there are two factors into this; one is volume, the other is the type of market that we are selling into. And the 33% or 1/3 roughly we were already in Q3, Q4 60%, so we added another about 30%, 32% of utilization and all the product is now going to the less regulated markets.

Ranvir Singh: On Ibuprofen side, are we seeing any change in pricing realization from Q3 to Q4?

Bharath R. Sesha: So, we now have more sales in the less regulated markets from Vizag. So, there the pricing is definitely lower than it is in the regulated market. So, our price realization will be more a function of the market mix, less to do with the absolute molecule per kilo pricing.

Ranvir Singh: But volume wise, we are growing?

Bharath R. Sesha: Yes, volume wise we are growing.

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

Nitin Agarwal: Bharath, just taking forward the previous question will be, so on Ibu the 30% of capacity and volume-led capacity that we have in Vizag, the initial idea was not to do largely in less regulated market or it was to do in reg market, we don't have approvals yet, we are currently servicing the less reg market and we will probably be strongest to reg markets as time goes by when approval comes in?

Bharath R. Sesha: Yes.

Nitin Agarwal: Just to have a broad sense, typically is there a major differential in the pricing that you are realizing in these two sort of buckets?

Bharath R. Sesha: Yes, there is, so depending on the grade or which pharmacopoeia that the product needs, there is a price difference and it could be as much as a couple of dollars per kilo.

Nitin Agarwal: Secondly, the way to understand Vizag is there is obviously a phase-I, which is on Ibu capacity, so that is with Vizag right now, right, MPP is incrementally start working from this quarter onwards?

Bharath R. Sesha: Correct, Nitin, so this quarter, we will be commercializing the MPP and that's where we'd also indicated amongst the products that we will also be making Favipiravir there.

Nitin Agarwal: And the fact that you're going to be coming with Favi capacity now, we would have phase-II and subsequently everything is uncertain. Can you give us a sense on how is the market landscape lye for this opportunity as we see going forward?

Bharath R. Sesha: So, the facility is a multipurpose facility. At this point in time, not just from a business, but from a society perspective, we feel it's the right product to bring to the market and in a partnership with Aurore we're bringing it to the market and we will monitor the situation. And because of the fact it's a multi-purpose facility, we have the flexibility to change product that we make there in two to three weeks' time. So, that that gives us the flexibility to do this product, support society, support business, as long as it makes sense and then of course we can do other products in that facility.

Nitin Agarwal: So, post-commissioning of the MPP facility, the entire Vizag CAPEX would come on-stream, is that fair or is there something more or less in the Vizag unit?

Bharath R. Sesha: No, we're also working on additional CAPEX opportunities. We'll come back to that once we finish the integration discussions and we come back from synergies because it must be now something that makes sense for the combined entity. So, we're in the process of detailing that out, Nitin.

Moderator: Thank you. Next question is from the line of Dipali from Sameeksha Capital, please go ahead.

Dipali: My question was more on the Aurore Life Science. So, I understand we'll come back with the details, but can you give us an indication of direction on how our balance sheet will look like in terms of gross block, booking capital, goodwill post this integration?

Bharath R. Sesha: So, maybe I'll just say something then Subhash can add to it. Just to reemphasize as we discussed during the merger announcement presentation, the management accounting figures are already there in the public domain. Those are still valid numbers to keep in mind as we talk of Aurore. Subhash, over to you.

Subhash Anand: Yes, that's what, Bharath, I was about to say, we have indicated our Aurore number during our last call. Aurore merger is EPS-accretive right from year one itself, so that's a positivity and the way Aurore financial ratios are, they are much healthier ratios, whether it's a ROCE or asset turn or even the EBITDA margin. So, once we merge together, we expect our ratios to improve. More color to this, we'll come back once we complete integration planning, so you'll hear more from us after that.

Dipali: We understand that Aurore also has significant revenue from COVID drug. So, then just to give an indication of how the growth of Aurore will be going ahead, will it be sustainable considering that we have COVID drug sales as well?

Bharath R. Sesha: So, I think what we should do is we will wait for the synergy to complete and we will come back with much more granular details on this one, just give us some time, we'll work it out so that we can have a good discussion with accurate data.

Moderator: Thank you. The next question is from the line of Sheersh Jain from Apex Capital. Please go ahead.

Sheersh Jain: Sir, wanted to understand in cash flow from investing activities we can see Rs.175 crores of CAPEX, but the same is not translated into fixed assets or capital work-in progress. So, what am I missing here?

Subhash Anand: If you add back depreciation into that, you will reach to broadly a similar number because what you see in balance sheet is a net block not a gross block. Other thing, yes, there are some capital advances which are part of CAPEX which doesn't get reflected in asset block.

Sheersh Jain: So, these capital advances are pertaining to inter corporate deposits?

Subhash Anand: No, these are for equipment manufacturing if you extend the capital advance, so it becomes a part of CAPEX spending.

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

Kunal Randeria: My first question is on the composition of growth. This quarter seem to be driven mainly by other markets. So, how do you see this in the coming year, if other markets are driving growth, is it fair to assume the gross margins will be lower year-on-year?

Bharath R. Sesha: So, it's a good question. So, the key reason behind the other markets driving growth are one, Vizag. So, all of the quantity goes to other markets. Two, we have opportunities in other products in the other markets which we were able to kind of capitalize on in Q4. As the situation normalizes in terms of the regulated market growth that will happen as the demand comes back mainly in Europe, as I indicated that there was some slowness in Europe for qualifying other sources, focus on COVID therapy molecules mainly, not really spending time on other molecules, those things we expect to normalize as Europe has seen some stability in terms of the COVID cases. So, I think this will normalize and become more like it was in the earlier part of the year over the next few months. So, then the margin profile, because of market mix will not be impacted as it was in Q4.

Kunal Randeria: Okay, so then for the coming year you're saying both your engine should deliver growth?

Bharath R. Sesha: Correct. That is one of the priority areas for us and this was actually a question two quarters ago in the same call that we are in today about are we looking at other markets also as a growth engine, are we heavily focused on regulated markets, at that time, I'd also very categorically said, for us, we want to be successful in both. And we've been able to do that very successfully in terms of executing our plans. So, I'm sure you will see that traction going forward. And you will see the balance come back to what it was before at a higher level in terms of regulated versus other markets.

Kunal Randeria: As a thumb rule, will US be high realization followed by Europe and then ROW?

Bharath R. Sesha: Yes, roughly, you're right, some products are a bit different in Europe and US, but roughly that would be the fair assumption.

Kunal Randeria: What would be the differential?

Bharath R. Sesha: That's a tough one, depends very much on the product, so it's difficult for me to give you a number on that unfortunately.

Kunal Randeria: My second question is on the CRAMS business. Post the acquisition, now you should be around 225 to 250 crores kind of business. Just wondering what are the kind of synergies that you see, are there any revenue synergies or mainly it is on the cost link?

Bharath R. Sesha: So, there are revenue synergies, because our customer base on the CRAMS side is different. There is an opportunity that we are immediately able to see just looking at the customer base. And the second synergy we see is now the R&D part, right. So, now we will have three centers, gives us more capacity, more capabilities, to be able to differentiate ourselves on the CRAMS side. So, both of these will play a very positive part in terms of growing our CRAMS business from synergy perspective.

Kunal Randeria: This is sort of oversimplifying, if you're growing at X-per cent, after the merger you can probably be growing at what 1.05x or 1.1x or something like that?

Bharath R. Sesha: Yes, I would say it would be much faster… I don't want to put a number to it till we do the synergy discussions.

Moderator: Thank you. Next question is from the line of Ujwal from Quest Investment Advisors. Please go ahead.

Ujwal: Just wanted to know a bit more on MPP side. One peripheral API product that we are launching right now. If you can give more clarity about how many products getting launched during the year of that facility? Technically, in terms of developed markets, will you be able to say that audits are being considered by the developed authority. So, any timelines in terms of approvals or any indication that you have received on any of the developed markets after the audits if you can throw some light on that please?

Bharath R. Sesha: So, on the second question, we've all seen recently there was quite some hearings in the US Congress asking for the FDA to come with creative ways of clearing the backlog of inspections. Subsequent to that, FDA has issued a detailed guideline paper on remote inspections, how does it work, what are some of the criteria that should be used by companies to benefit from it? It's an evolving discussion now. So, many countries, including WHO are in the process of adopting remote audits. In fact, I just saw an example in Latin America where FDA had done a remote audit as recent as a couple of weeks ago. So, I think the world is catching up with the fact that this process of face-to-face audits may be still a bit of a distance away in terms of timing. So, that's the general view right now and this is all based on what's available publicly that more and more regulators are looking at remote audits and kind of looking that vehicle as a vehicle to continue to clear backlog that they may have in terms of audits. To your first question, as a company, and I'm not talking only by that MPP, but overall as a company, we will aim to have at least 10 to 12 filings this year. And that's basically what will be the new product launches that we will do that includes not just the Vizag MPP, that includes the other facilities also. And we will continue to file market extensions, last year, we did '23, we will continue to do at that level going forward. So, that will be the amount of filings that we will do as we have planned for in FY'22.

Ujwal: In terms of Ibuprofen, you did mention that currently you are selling the large quantity in terms of volumes to the non-regulated markets. Considering we do get approval from the developed market and we do shift some volumes over there. are we planning to add more capacities to meet the non-regulated demand as well, because now we would have created a base almost 90% capacities in those non-regulated markets as well, so is that on the anvil? And what kind of CAPEX are we looking for in FY'22?

Bharath R. Sesha: I'll answer the first question and Subhash will step in to answer the question on CAPEX. So, we continuously monitor the market situation on Ibuprofen. We are very comfortable with our business model, because it's based on strategic relationships, it's because our products are customized to fit the large customers machines and run them efficiently, it's based on the fact that we have a very strong presence in Ibuprofen derivatives. And using these advantages and differentiators, we've been able to enter new customers in the less regulated markets over the last four, five months. And to the question of whether this would warrant us to add capacity as we get regulatory approvals, we will continuously monitor the situation, there is always the possibility to do more out of existing assets, there is always the possibility to debottleneck. So, we will explore all options to continue to service the market. We have a very leading presence in Ibuprofen and we will continue to maintain that and we're very confident of doing so. In terms of additional capacity, we will keep looking at the situation. If warranted, we have no problems in committing further to this business, because we're very good at it and we are the leading player there. At this point in time, no immediate plans for that.

Ujwal: Lastly, on the CRAMS business, if you can throw some light in terms of what new capabilities or new areas that Solara has worked upon or new customer wins, which will drive Solara CRAMS business over next two to three years? I do understand that Aurore and all would add a lot of capabilities in terms of R&D and customer base. But if you can throw some light on what Solara has been doing, which will augment growth for them?

Bharath R. Sesha: So, it's not an either or as you very rightly point out, it's and, so it's Aurore and Solara, both of us adding to the growth. Solara's strategy on CRAMS has been based on making sure that we have adequate differentiation in a solution we bring to our customers to deepening our engagement and our efforts to gain more from the pharma customers which typically are very sticky and are long-term oriented. Third, we continue to look for inorganic opportunities to grow our CRAMS business, looking for assets/lab in the West mainly, but not really only in the West, but we are preferred to have that in the West. So, these are the three elements of our strategy. In fact, we are making very, very good progress on making sure that as I said in my opening remarks, in FY'21 we've added about four big pharma to our customer list, we've got repeat enquiries from two of them as recent as last quarter, and we are very deeply engaged with all of them in terms of providing solutions to them and we are very confident of the track and the trajectory in which these engagements are going. Coming to the point about geographical spread, which is also equally important for us, we've made breakthroughs in CRAMS in Japan, we made breakthroughs in Korea, and we are strong in Europe, we continue to make small breakthroughs in the US. So, all of this is what gives me the confidence to say that CRAMS will grow at a faster clip than the overall company. And this leading indicator of wider geographical spread, big pharma customers, along with the fact that we're doing the right things from a scientific differentiation perspective is what we believe is the propeller of growth for our CRAMS business. And of course, inorganic will leapfrog this even further. For now I just commented on the organic part of how we are growing.

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

Nitin Agarwal: Bharath, just going back to your earlier comments around the new product launches, the two products that you mentioned that you will be launching in Q2, Q3, any qualitative sense you can give us, the opportunities are there, what kind of products are we talking about here and then potential opportunity which can play out over a period of time on these products?

Bharath R. Sesha: So, these products both combined together could be a total market potential/our opportunity size could be in the tens of crores at full blown, both together. And I'm being a bit guarded in saying an exact number, because we are still in discussions with multiple customers, both these products are competitively not very intense, we are one of the very few players, our process is very differentiated from our competition, and that's why we have the significant traction with customers, as I said, the capacity is fully booked for more or less a whole year now for both these products. So, it would be intense approach.

Nitin Agarwal: When you say Q2, Q3, this coincides with the market formation?

Bharath R. Sesha: Correct. So, we're already the exclusive supplier of this product to our customers and this will be scaled up in Q2, Q3, we're scaling up API production as we speak. So, the revenue impact and the margin impact will come in Q2, Q3. And these will be relatively better margin businesses for us versus the corporate margin?

Bharath R. Sesha: Yes, it will be better margins.

Nitin Agarwal: And secondly on the new technology platform that you talked about, can you give us a little more understanding on that?

Bharath R. Sesha: So, in previous conversations I have been sharing that we are very serious about differentiating our ability to bring a solution to our customer. And we have invested and spent time on developing what we call "Technology Platforms." And without going into the details of each of the technology platforms what they are, I'd rather just come back to you once we have proof-of-concept. I'm not saying these are the ones we're working on. But just give you an example, right, Biocatalysis is a technology platform, Flow Chemistry is a technology platform, Fermentation is a technology platform, Complex Generics is another technology platform. So, what we are doing over these few months and what we have been doing and will continue to do is invest in developing the capabilities, which means that we will have the competence to develop a product that needs this particular technology. And we anticipate to have at least two of these in terms of proof-of-concept by the end of this financial year. What this does in the medium to long term is gives us an opportunity to participate in a market space with very limited competition, higher margin profiles, strong customer stickiness, and alters kind of the way that we work with our customers partner with them on launch, partner with them on other strategic market increase that they may have. So, it just kind of gives a totally different perspective to the business that we would have at that point in time. So, this is what we mean by technology platforms and that's what we are working on currently. And as we come to a proof-of-concept stage, I'll be more than happy to share more details how we see ourselves different and competitive there.

Nitin Agarwal: So, when we look at our new product launch contribution to our revenue, it's about 7% or thereabout if I remember we mentioned in the presentation. Now, a) how do we measure it, the product to be launched in FY'21 or a certain longer time period that we use? And two, do we see this proportion, whichever way we define it for our launches significantly changing for us as we go forward?.

Bharath R. Sesha: So, we define any product that has been launched in the market over the last three years. So, anything that's three years and less we take it into account in terms of new products. We see 10% to 12% as steady state for new products and I think the part of it was 7% in Q4, but it is 9% for the annual number, so we're close to that 10%, and again in Q4, less regulated markets entry of Ibuprofen skewed that ratio a bit. And as we scale up the new products, I'm confident we will be in the 10% to 12% number. And it's a refreshing metric, every three years something drops out, something gets added.

Moderator: Thank you. The next question is from the line of Harshal Patel from Sharekhan. Please go ahead.

Harshal Patel: Sir, just need one clarification. On the CAPEX, as you said, we've incurred about 174-odd crores for '21. So, sir, what can it be for '22?

Subhash Anand: Last time, we spoke about CAPEX, if you remember in our last call, and since we are in growth journey, and we expect our growth to continue. Our CAPEX even in this year will be in the range of 200 to 250 crores, but we are also in middle of our synergy discussion with Aurore. So, post our calibrations once we understand their capacity need, our capacity need, you'll hear a number once we come back with the guidance for this year how this number will be taking Aurore also in consideration.

Moderator: Thank you. The next question is from the line of Alicia Malva from Envision Capital. Please go ahead.

Alicia Malva: Just one clarification. What is your capacity utilization currently if you exclude Vizag?

Bharath R. Sesha: So, other than Vizag, if you see, it will be mid to late-80s.

Alicia Malva: Just some comments from you in terms of what is the percentage of import of raw material and currently, how much of that is coming from China?

Bharath R. Sesha: So, total imported raw materials is roughly around 35%, 36%, out of which 29% comes from China which is a reduction from the 32%-odd it was in the early part of the year.

Moderator: Thank you. The next question is from the line of Sachin Jain from Carnelian Asset Management. Please go ahead.

Sachin Jain: Could you more elaborate on your scientific side and CRAMS side why customer would come to you, if you can elaborate more, you already elaborated a bit?

Bharath R. Sesha: The CRAMS business is all about capacity, it's all about scientific differentiation, all about making sure that we are adding value to a recipe that our customer is already thought off or wants you to develop. So, what we have been focusing on over the last one year and kind of very well anchored in the DNA of the organization now is CRAMS at the end of day is technical/science sale, where you have adequate capacity that can back up your science and which means you can make that product and you have the adequate knowledge and the scientific capability to be able to develop that product for your customer. So, that's how we have differentiated ourselves on the CRAMS space. All our discussions with big pharma. I'm personally involved in a few of them, so I can say this from experience, has been about how we can do something in a way that is unique compared to either competition or compared to some of the ideas the customer themselves may have. And that is what is given us repeat opportunities. Not that we've gone and said that, we have capacity and that's important. But it's also the scientific capability that we bring to the table. And that's how we've been able to get repeat business with big pharma customers and that's what we are expecting to further build on in terms of strengths and further grow that capability.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we will take the last question from the line of Kunal Randeria from Edelweiss. Please go ahead.

Kunal Randeria: My first question is also related to COVID products. So, just wondering, how you price these contracts, because let's say the government caps the formulation prices, so do your prices to your customer also come down accordingly?

Bharath R. Sesha: So, it's a bit premature for me to comment on that, because we are still in the process of commercializing this product. But, of course, we will comply with whatever the government regulations are, we will work with our customers to make sure that at the end of the day, both society and business benefit, it's not one or the other. And we will focus with our customers to make sure that we are doing the right things in terms of pricing, commercial arrangements, all of these things. Unfortunately, I'm not able to give you more color because it's a bit premature for me to comment because we're in the process of commercializing as we speak.

Kunal Randeria: On the CAPEX number, out of these Rs.200, 250 crores that you are planning, how much would be maintenance and how much would be for capacity addition and where exactly are you adding capacity?

Subhash Anand: No, in terms of maintenance and growth CAPEX, majority of this CAPEX is growth CAPEX. Maintenance CAPEX is not very high in our industry. So, majority of the CAPEX is coming on growth. Where this exact capacity is coming up. I'll say just wait till we come back with a more color on post-synergy how and where this investment is going to come back

Bharath R. Sesha: So, just to add to Subhash's comment, we've already been sharing in the past that we have land available… and I think Alankar asked the question at the beginning of the call, we have land available in Mysore, we have land available in Vizag, so it's a question of just identifying the right product, the right capacities and then installing it. So, that's kind of how we are doing the process as Subhash explained.

Moderator: Thank you very much. I will now hand the conference over the management for closing comments.

Bharath R. Sesha: Once again, thank you all for joining today. And I want to again give the best from all the 3,000 employees of Solara to you and your families to stay safe, stay healthy. And look forward to connecting with all of you in the coming days in further calls. Take care. Stay safe. Thank you.

Moderator: Thank you very much. On behalf of Solara Active Pharma Sciences Limited that conclude this conference. Thank you for joining us. You may now disconnect your lines.