



“Solara Active Pharma Sciences Q4 and Full Year FY- 2020 Earnings Conference Call”

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**MANAGEMENT: MR. JITESH DEVENDRA – MANAGING DIRECTOR,
SOLARA ACTIVE PHARMA SCIENCES LIMITED
MR. BHARATH SESA – CHIEF EXECUTIVE OFFICER,
SOLARA ACTIVE PHARMA SCIENCES LIMITED
MR. HARIHARAN – 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 the Solara Active Pharma Sciences Limited Q4 FY20 Earning 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 would now like to hand the conference over to Mr. Abhishek Singhal. Thank you and over to you sir.

Abhishek Singhal: A very good afternoon to all of you and thank you for joining us today for Solara Active Pharma Sciences earnings conference call for the fourth quarter and the full year ended financial year 2020. Today we have with us Mr. Jitesh Devendra, Solara’s Managing Director, Mr. Bharath Sessa, CEO and Mr. Hariharan, the CFO to share the highlights of the business and the financials for the quarter. I hope you have gone through our results release and the quarterly investor presentation, which have been uploaded on our website as well as the stock exchange website. The transcript of this call will be available in a week’s time on the company’s website. Please note that today’s discussion maybe forward-looking in nature and must be viewed in relation to the risks pertaining to our business. After the end of this call, in case you have any further questions please feel free to reach out of the Investor Relations team. I now hand over the call to Jitesh to make the opening remarks. Over to you Jitesh.

Jitesh Devendra: Thanks Abhishek. Hi friends, we welcome you all to Solara’s Quarter 4 FY20 and full-year FY 20 earnings call. I hope you all are fine and in good health at your respective locations along with your families. As you all know our world has changed over the last few months and the pandemic has impacted our communities, our work and rather our way of living. While all of this is difficult, unanticipated and unprecedented, it is also the time for us to look forward to a new normal we have entered and to remain highly hopeful that the world will once again thrive for all of us to do what we aspire for. Today joining on the call along with Abhishek and I are Hariharan, CFO and Bharath Sessa, CEO of the company.

I believe you have the copy of the results and hence in the interest of the time I would like to spend a few minutes on critical factors that attributed to the results that were reported today. Going back to the quarter that is Q4 FY20, during the first three quarters we witnessed quarter-on-quarter growth in our EBITDA and we were tracking at 820 million from Q3. Suspension of production across our sites as well as logistic issues both for RM and finished goods led to lower sales in Q4 compared to Q3. Second, we stopped manufacturing and distribution of Ranitidine as US FDA has determined that the NDMA impurity in some formulations products increases over time and stored at higher temperatures. Ranitidine constitutes approximately 7% of our overall revenues. The process is on to find alternate products which can effectively utilize the capacities.

On our revenue front, we could have done better. One of the main reasons was due to the customer ordering pattern of one of our top 10 APIs as well as delay in the ordering of validation

quantities of our new products. As we speak we are happy to share that the customer has started placing orders for the API and we will see a positive outcome in second half of FY21.

Coming to our new products; we have completed product development for 10 APIs up to December 2019, but we only filed 4 out of these. We have learnt that just by completing the development at lab does not necessarily mean we can go ahead with filing. There are genuine issues like the time it took to finalization of specs with the customer, obtaining the necessary license for products not registered in India and in the last quarter delay in receipt of raw materials which led to a lower number of filings. With the lessons learnt we are confident of increasing the number of filings in FY21. Our efforts to continue expanding markets for our APIs has led to adding 9 new markets. We believe such efforts will contribute to revenue growth while it aids, and derisk dependence on customer and markets we today operate.

Despite the challenges we are pleased to inform the growth of our EBITDA thereby resulting in a higher PAT compared to FY19. This has resulted mainly due to our focus on continuous improvement programs. With a strong foundation built over the last 2 years, our focus for FY21 is accelerating growth during the expansion by way of commissioning a new facility in Vizag, building our CRAMS business, expanding our APIs to new markets, new customers and ramp up our new product filings. As guided before while we are well ahead of our 3 years guidance on EBITDA and growth, we remain confident that we will achieve 15% CAGR on revenue. I would now request Bharath to share his thoughts on the performance and as to what he thinks would be the key focus areas for FY21. Over to you Bharath.

Bharath Sesha:

Thank you very much Jitesh and good afternoon to everyone. I hope all of you are keeping safe and healthy and I hope you remain that way in the coming days and weeks. I want to build on what Jitesh has already shared about. I would like to re-emphasize that our commitment to employee safety and customers has been unwavering. We took and continue to take all actions to secure a healthy environment for our employees and towards being a reliable partner for all our customers. In 2021 we will be focusing on four themes of customer centricity, new products and new markets, continuous improvement and of course engaged employees. Each of these themes will provide us with critical levers to deliver growth for Solara. We believe that the full-year '21 and in the future a few macro developments will further enable our growth and enable our growth levers to succeed and these include Pharma companies looking to diversify their supply chains, some of the policy efforts by the government of India to promote domestic API manufacturing and an increased focus on healthcare by various countries. Solara is well positioned to benefit from these trends as explained above. We stay very optimistic about the future and our capability to deliver on our midterm commitments. Thank you very much and now we are open for Q&A. Abhishek over to you.

Abhishek Singhal:

Janise can you please open it for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line of Subrata Sarkar from Mount Infra Finance.

Subrata Sarkar: Can you just explain little bit in detail like what is the reason for this quarter's degrowth in sales and how many days have we missed out in the quarter due to this COVID issue? What is the status of our plants, are we operating or not and at what level we are operating?

Jitesh Devendra: So yes, the Quarter 4 has been challenging, we had a strong order book. The suspension in our productions is because of the COVID and we had to go in for a complete lockdown thereby it did affect our revenues and our EBITDA. And, on the Ranitidine, I would like to highlight I know this would be a question; we have taken full provisions in terms of the Ranitidine what it could have had in the Q4 itself, so we don't see any negative impact of Ranitidine in FY21. Going to your next question about our current state of operations; we have started operations in a phase wise manner across all our locations, following all the regulations posted by the authorities.

Subrata Sarkar: My question is like how many days we have missed because of COVID, if you just help us to understand? What is the status of the plants?

Jitesh Devendra: I already mentioned about the status of the plant. As I mentioned in my last investor call, we were tracking well in Q4 that is the Q3 EBITDA of INR 80 crores and we would have expected to hit that as a minimum number in Q4. But due to the issues which I have already explained and hence the lower EBITDA number in the Q4.

Subrata Sarkar: Regarding FY21 guidance, despite Ranitidine going off which is almost 7% of our topline we are guiding for almost 15% growth in sale. So, any specific reason like in this year whether we are expecting a big traction on our contract manufacturing area also?

Jitesh Devendra: When we guided the market on a 3-year basis on the revenue front we would grow at 15% and on our EBITDA front at 20%, we are still confident about the guidance what we have given for FY21 and we maintain that guidance. As I told in my opening speech we have now commissioned our Vizag facility also and there is an improvement in terms of some of our key APIs in order book.

Moderator: We take the next question from the line of Ashwini Agarwal from Ashmore.

Ashwini Agarwal: Just speaking a little bit on Ranitidine, in the opening remarks you mentioned that there should be no impact from Ranitidine going ahead. So, did you see any product returns or any finished goods at your end because from what I recall the latest US FDA guidance in the first week of April, I don't think it happened in the Jan to March quarter, please correct me if I am wrong.

- Jitesh Devendra:** Yes, it didn't Ashwini and we are continuing discussions with our customers, of course Strides is our largest customer but even though it happened at the end of the quarter, from a good governance perspective, we have made provisions in the Q4 itself for Ranitidine.
- Ashwini Agarwal:** So, these provisions would be by way writing down some inventories and finished goods or making provisions for return, what is the nature of these provisions?
- Hariharan:** These provisions are mainly Ashwini for inventory what we are carrying which is why dispatches are held up, only for that. As far all the products are sold and there is no return by any of the customers.
- Ashwini Agarwal:** Are you liable for your returns, I don't know about your contract.
- Jitesh Devendra:** Not liable for the return, that's what Hari is mentioning. The provisions have been made for the inventory what is lying with us.
- Ashwini Agarwal:** The question I'm asking is that your contracts with customers once the sale is done its full and final, there is no potential return, correct, is that how I should understand?
- Jitesh Devendra:** Yes. As far as the API is meeting the specification there is no issue of return.
- Ashwini Agarwal:** Would you be able to spell out what is the provision you have made regarding inventory in the fourth quarter because we are looking at an EBITDA number, so that obviously has two components. One is one week of complete shutdown due COVID 19 or whatever 8 days of complete shutdown due to COVID19 and the other is because of these Ranitidine provisions which would be I'm assuming one off in nature, so would you call out that number?
- Jitesh Devendra:** We won't be able to give you a breakup Ashwini but when I say I will talk on behalf of Bharath and Hari, we were very confident about the Q4 number being in line with the Q3 or probably even higher. We were tracking at that rate.
- Ashwini Agarwal:** I'm just trying to break up what is the loss in EBITDA due to production and what is the specific Ranitidine provision. Anyhow let's move on from there. So, second question is that you mentioned in your presentation and I will just have like a minute or two to go through it because it just came out, is that you started the production at Vizag, so what's the next sort of milestone there? You're going to file DMF and then you will see a US FDA inspection and you have also written that you filed 2 DMF, are they from Vizag or are they from your existing US FDA approved plants?
- Jitesh Devendra:** They are from the existing US FDA inspected plant. In Vizag the next step is of course the regulatory approval and what we are doing is both two strategies, one is of course an approved DMF which is already with us. We would qualify the plant because that way it will trigger the inspection because a new DMF goes through its own cycle of review and then the approvals.

But the quickest way of doing it is an approved DMF we would add Vizag as an additional site, so it triggers the inspection by the European and the US FDA authorities.

Ashwini Agarwal: If the lockdown is lifted by June end would it be reasonable to expect that this inspection will get done by September end?

Jitesh Devendra: No, that would be too early to say Ashwini, but the European authorities would be much quicker compared to the US FDA and we are hoping that there would be sales from the Vizag in the second half of this financial year. We have other markets also where there is no regulatory approval required. It is more about GMP and submitting which has a quicker approval, we can access those markets.

Ashwini Agarwal: Which is my follow-up question is going to be that in the meanwhile do you plan to operate the plant and supply to other markets?

Jitesh Devendra: Yes.

Ashwini Agarwal: What's the gross block at Vizag which has been added?

Hariharan: About 200 crores.

Ashwini Agarwal: And considering what's going on and you probably will continue to operate at subdued capacity utilization over April and May, would you say that the first quarter is likely to continue to be a weak quarter, would that be a reasonable assumption to work with?

Jitesh Devendra: Yes Ashwini because the production also at our various sites as I mentioned before is doing it in a phase wise manner and like to reiterate to give the confidence that we have a strong order book and it is more about execution from operation and to ensure that the safety of the employees we have to do it in a very gradual and a phase wise manner. As of now (touchwood) there has been no incident in any of our facilities with all the safety measures what we have implemented.

Ashwini Agarwal: Where are you facing the bottleneck, is it employees, is it shipping, is it raw material, where are the key bottlenecks?

Jitesh Devendra: It's a combination of all Ashwini and given that we operate in multiple states, the ground realities are different than what it is mentioned out there that the Pharma is an essential thing. But every state has its own challenge but it's good to say that over the last one week at least it is eased out; we are getting the raw materials for initiating the manufacturing.

Ashwini Agarwal: Last question is that is there any change to your CAPEX plans in the current year looking at how the world has suddenly changed?

- Jitesh Devendra:** Yes, we would be looking at it because cash flow is very important, and we will be again deferring some of the CAPEX what we have planned in the second half. We really want to see how the first half works and then take—I would say—the B category CAPEX into play.
- Ashwini Agarwal:** And what is your existing CAPEX budget for the current financial year?
- Hariharan:** Normally that our CAPEX is in the range of 100 crores maintenance and debottlenecking CAPEX and this year we're estimating to 50 to 60 crores only.
- Moderator:** We take the next question from the line of Kunal from Antique Stock Broking.
- Kunal:** So, couple of questions, you made one very interesting comment in the beginning that you are seeing improving macros for the API industry and maybe a bit of it is from the government I think. So, can you just talk a bit more about it, are you sort of getting more enquiries from new customers, is it from developed markets or developing markets, what exactly is that?
- Bharath Sesha:** This is Bharath here, so let me address that question. The answer is all the above, so on some of the products we see traction from new customers enquiries going up, some of our existing customers also have given us more bullish view about their requirements for the coming 6 months on, so it's a mix of both. The other macro that we talked about in terms of diversification of supply-chain risk is happening across the industry. This is not just specific to Solara and we have all been reading about it. The need for all sectors and particularly in the pharmaceutical industry to diversify the supply chains and we see that in a couple of our interactions with our customers that this is now becoming more of an urgent topic and something that they want to make tangible progress in the coming couple of quarters. So yes, we see the initial signs that these will eventually end up being a big beneficial macro development for Solara.
- Kunal:** So, if I understand correctly you are saying that you will see some tangible improvement maybe very soon and even in your numbers in FY21, correct?
- Bharath Sesha:** Yes, so the discussions are preliminary with our customers in terms of, but we do see the trend in a very positive manner.
- Kunal:** But the things are progressing so well then why deferring your CAPEX plans, so why you being so cautious over here then?
- Bharath Sesha:** It's just prudence at this stage as Jitesh mentioned earlier we are monitoring the situation as these discussions mature and we get into more confident situation regarding how these will pan out during the year we will revisit some of these decisions. As of now we are being very prudent about how the year will shape.

- Kunal:** My second question is on book keeping one, so your inventory has gone up bit sharply year-on-year when even your revenues are down, so does it mean that some orders are probably delayed, and we could see revenue coming in 1Q FY21?
- Hariharan:** Yes, you are right. The inventory in the last 10 days we could not complete, all the products are work in progress status and we could not convert it into finished products and complete the quality process. That's the reason inventory is relatively high during the year-end. It will get normalize during the first quarter.
- Moderator:** Next question is from the line of Aditya Sinha from DSP Mutual Fund.
- Aditya Khemka:** Aditya Khemka here. Just couple of questions for you gentlemen, firstly if I look at your presentation you have given a number on fixed asset turnovers. So fixed asset turn for this year seems to be about 1.7, earlier which was 1.9 in the earlier year and this 1.7 now is adjusted for your Vizag unit, so it's not that the Vizag unit is contributing to it. My question therefore to you is given that some of our capacities might be slightly older and therefore the book value of the assets may not be close to the replacement value. Do you think for you and for the industry the fixed asset turns will somewhat moderate from what the industry is currently reflecting because the newer capacities would be at a higher cost whereas the product price would largely be the same regardless of whether we manufacture at new plant or the old plant?
- Hariharan:** The fixed assets value in our books is revalued assets which is to the current level during the demerger we have revalued all the fixed assets to the realistic value. We will be in the range of 1.7. 1.9 will be our target we are working towards for FY21.
- Aditya Khemka:** And that 1.9 you say including the Vizag unit?
- Jitesh Devendra:** Some portion of the Vizag unit but not the full year revenue of Vizag.
- Aditya Khemka:** Why would that be because you are accounting for the marginal capacity utilization that Vizag would have during the year, is that right?
- Hariharan:** Yes, second half only that Jitesh has mentioned that in the second part of the year only that production will be starting from Vizag.
- Aditya Khemka:** So that's why you are taking this portion off?
- Hariharan:** Yes.
- Aditya Khemka:** Your yearly concentration in customers and products seems to be 50 and 77, top 10 customers are 50, top 10 products are 77 but, in the quarter, your top 10 customers seem to be 63 which is significantly higher than the yearly average of top 10 customers being 50. So, does that basically

mean that some of your larger customers gave you a large order this quarter because that's what the higher concentration would typically indicate?

Jitesh Devendra: Yes, again I would say it's a mix of two, one is our existing customers the business continues to grow which is good and second is there is a marginal percentage also because we did not ship out the inventory during the last 1 week or 10 days because of the lockdown.

Aditya Khemka: Right but that wouldn't increase the revenue from top ten customers for the quarter?

Jitesh Devendra: Its normalized.

Aditya Khemka: If I look at your cash flow statement, there is an inter-corporate deposit of 50 crores done during this year and there is also a 55 crores investment in subsidiary. So, two questions here, firstly if you could elaborate on what the investment in subsidiary, is this the Vizag plant which is shown as a subsidiary?

Hariharan: It's an old acquisition we did it for our Ambernath unit from Strides that is during last year that is what getting reflected and part of the amount has been paid during the first quarter of FY20.

Aditya Khemka: And this inter-corporate deposit of 50 crores?

Hariharan: It is that our cash deposited.

Aditya Khemka: With whom?

Hariharan: With one of our group companies and with the current market rate interest which is expected during June.

Aditya Khemka: But why do this sir, this could raise questions on the governance of the company. You could have deposited in the bank and your group company could have borrowed from the bank if they wanted to? Why follow this practice of inter-corporate deposits?

Hariharan: We have done that in line with the statutory requirement only.

Aditya Khemka: No, I know statutorily it's allowed. I'm not saying it's illegal, I am saying from a perspective of a corporate governance, inter-corporate deposits between two entities maybe because we don't know whom we have deposited to and what is the liquidity situation of the entity we have deposited with...

Hariharan: In fact, all consideration has been given and proper decision has been taken by the board, based on the Board's approval we have done, and we are treating it as part of the cash only.

Jitesh Devendra: And as Hari mentioned this will come back in the books in June. So, we take note of your point.

Aditya Khemka: I just wanted to make this point from a corporate governance perspective. It leaves a bad taste in the mouth, that's what I'm saying. You guys are large entities you could do this with the banks respectively and avoid situations like this. Last question from my side and I will go back to the cost side of things. So, with the prices of crude coming down, could you give me some sense on; so, I understand that the prices of solvents and excipients to an extent depends on crude and given the shock that crude prices have seen; have you seen a decline in the prices of solvents and excipients, number one? Number two, if so, then are your customers asking you to pass on that cost benefit to them and number three given the current situation of supply, constraints within API and China taking opportunistic price increases; how is your pricing discipline in the current environment?

Jitesh Devendra: So, from pricing policy we have always maintained that Solara has never been opportunistic. We have always looked at long-term relationships that the crude price, we don't buy excipients, but we do buy solvents. We have not seen any reduction in the raw material price as on today because of the crude going down and not many raw materials depend on the crude factor for us. About the customers asking for a price decrease because of the crude, we have not yet got any request from the customers to lower the pricing and again just going back to my statement we have never been opportunistic, we have always looked at long-term relationships and that's what has even guided us and more business from our existing customers.

Moderator: We go to the next question from the line of Pritesh Vora from Mission Holdings.

Pritesh Vora: You guided for 10% revenue growth and 15% EBITDA growth. Which are the products which will contribute towards this over the next couple of years?

Jitesh Devendra: We did guide on a revenue growth of 15% on CAGR and 20% on EBITDA. Unfortunately, we don't give product by product revenue breakup but what I can say is, it is the combination of our existing products as well as the new products which we have launched over the last 2 years including the new product filings what we are doing, we see a revenue coming from the sale of the validation quantity. So these are the three aspects where the API is concerned and the fourth is the CRAMS, we are seeing a traction in our CRAMS business as we laid out, we have open bids over there with the customers and again because of COVID there is some delay in the decision but there is a high probability with the CRAMS business also will constitute to our revenue growth.

Pritesh Vora: So, CRAMS business is a manufacturing business?

Jitesh Devendra: Yes, its contract development and contract manufacturing.

Pritesh Vora: You already have put up a plant for that or how it will be worked out?

Jitesh Devendra: It's our existing plants, keeping Vizag aside, we have five manufacturing plants and we already have some legacy CRAMS business what we do from these sites.

- Pritesh Vora:** If I must consider overall utilization of all your plants, what level you are running at?
- Jitesh Devendra:** Utilization of the plants we are at about 70% to 80%.
- Pritesh Vora:** Including your Vizag plant?
- Jitesh Devendra:** Excluding Vizag.
- Pritesh Vora:** Vizag can do what kind of turnover? Vizag gross block is 200 crores.
- Jitesh Devendra:** Yes.
- Pritesh Vora:** What kind of turnover it can be there?
- Jitesh Devendra:** The best way to look at it as an asset turnover.
- Pritesh Vora:** What kind of asset turnover?
- Abhishek Singhal:** We have mentioned around 1.7 times largely we try to achieve 1.7 to 1.9, we should be pretty much in that range.
- Jitesh Devendra:** That will be based on the full year and once we have regulatory approvals from all the authorities.
- Moderator:** We take the next question from the line of Sarvanam Vishwanathan from Unifi Capital.
- Sarvanam Vishwanathan:** Can you take us through the debt reduction plans because you have mentioned that there won't be major CAPEX this year so are you planning to reduce debt in this year?
- Hariharan:** We will be availing the debt for construction of additional facility in Vizag and we will be repaying nearly 120 crores debt repayment in the next financial year. The debt level will be in the same range.
- Sarvanam Vishwanathan:** In FY21?
- Hariharan:** Yes.
- Sarvanam Vishwanathan:** This is a topical news, so our Vizag facility, is it away from the gas leak area in Vizag which is the unfortunate incident that has happened today?
- Hariharan:** Yes, it's around 40 km away from our facility.
- Sarvanam Vishwanathan:** The other point I wanted to have clarity was Ranitidine. Would we be able to use the capacity for other markets or is it only market for you as markets?

- Jitesh Devendra:** Yes, we are looking at our facility for other products so that work is already in progress.
- Sarvanam Vishwanathan:** And existing inventory, can it be sold in other markets?
- Jitesh Devendra:** Yes, it can but we also need to be responsible in terms of how we do it because we don't want to sell something and then get a recall. So, we want to be cautiously taking that path because there are other markets where ranitidine is still not suspended or banned.
- Sarvanam Vishwanathan:** Yes, that's why I wanted to understand. You would try to seek some regulatory approvals and then do it?
- Jitesh Devendra:** Yes, and the customer confirmation because as I'm repeating again that we don't want a situation where we send the material then it is saying a recall and that tarnishes our image. So, we want to be cautious about that.
- Sarvanam Vishwanathan:** Even for India...?
- Jitesh Devendra:** For any market because we don't distinguish market based on the quality requirements. We have one quality policy across all our sites for all markets including India.
- Moderator:** Next question is from the line of Rajat Setiya from VRDDHI Capital.
- Rajat Setiya:** Just one question, our gross margins expanded by around 5.5% in this year. Just wanted to check how much of that is sustainable?
- Jitesh Devendra:** Our gross margin as we guided, we're always looking at to be at a minimum of 50% to; well in this quarter is beyond that but it would not be less than 50% and it's also a mix of various things because there are certain times, certain quarters there are campaign based products which have a higher gross margin and then the new product validations sales, those also are a much higher margins compared to the commercial products.
- Rajat Setiya:** So now you believe that the product mix and the scale has been reached that we can maintain 50% margins always and.?
- Jitesh Devendra:** Yes.
- Rajat Setiya:** What is the share of CRAMS in our overall business right now, what is the outlook?
- Jitesh Devendra:** CRAMS today is less than 10% of our overall revenues but yes this is a significant pillar which we want to build and one of the reasons also for raising equity through the promoters as well as through TPG is to look at inorganic acquisition in CRAMS which can faster the process of growing this pillar of business.

- Moderator:** We take the next question from the line of Jayesh Parekh from JMP Capital.
- Jayesh Parekh:** My question is for Mr. Hari. Till what period this tax provision would get adjusted by deferred tax?
- Hariharan:** Next 2 years minimum.
- Jayesh Parekh:** And thereafter we should be falling within normal tax?
- Hariharan:** With a normal tax because we also got that Vizag SEZ unit and that tax holiday will continue and other units will come under the normal tax.
- Moderator:** Next question is from the line of Sachin Kasera from Swan Investments.
- Sachin Kasera:** Two questions from my side, one was the Ranitidine provision, so if you could just help us know whether it is reflected in the raw material cost or it is something that is reflected in the lower revenue at least that would help us get some sense on the Gross margins adjusted for the provisions?
- Hariharan:** Whatever the inventory what we are carrying has been already written off and it is adjusted in the gross margin.
- Sachin Kasera:** Second was this net debt figure of 600 crores, now you mentioned that this year you are looking at not more than 60 crores of CAPEX and we are looking at a 15%-20% growth in EBITDA so are we looking at reduction in the net debt? The 600 crores should come down and plus we have some warrant which are still pending conversion. So how are we looking at the net debt figure next year?
- Hariharan:** We expect 280 crores warrant infusion fund during current year and we expect to repay around 120 crores debt during the current year and we will be availing for the Vizag expansion 100 crores loan. There will be a reduction in net debt after adjusting the Equity fund compared to the current year.
- Sachin Kasera:** Second thing is in terms of the pipeline that we have, what is the number of launches we are looking and are we looking at incremental launch being much better gross margins, so the gross margins could tend to go up next year, 1 to 2 years, can you please comment on that?
- Jitesh Devendra:** Based on the DMF filings what we have done over the last couple of years; we do expect some new launches also to happen in FY21. While the gross margins of course for these new products are better than the commercial ones. We will not have a big significant impact on the gross margin because while the value is high the volumes would be in low to mid volume.

- Sachin Kasera:** Just one question regarding return on capital, we have almost close to double-digit in the last 2 years. So how do we see this number in the next couple of years because you mentioned that the gross margin may not see a significant improvement, so is it just purely by operating leverage you will see improvement and what do you think is sustainable return on capital for the type of business that we are doing?
- Hariharan:** It will be around 18%.
- Moderator:** We take the last question from the line of Vibha Ravi from Scrip Intelligence.
- Vibha Ravi:** I have just two questions, one is with respect to Ranitidine; so is that a story that is over because FDA at that time when the ban was imposed they had said there could be some work around in terms of their presence of NDMA, it could be a fixable problem. So, do you see it as a fixable problem and do your customers see it as fixable problem or it's like now this is a story that is over in all respects whether with respect to EU or India?
- Jitesh Devendra:** To answer on Ranitidine so the US FDA has suspended. They have not banned the product. They have asked the Finished Dosage manufacturers to conduct more study. So, we cannot completely write off on Ranitidine. The FDA has of course given some guidelines and if those guidelines are met the customers can re-launch the product. So, while that could be a very positive news for players who operate in Ranitidine API and Finished Dosage. But at Solara we are already working to de-risk for future scenario that we will not be able to launch the API, so we are already working on the de-risk plan.
- Vibha Ravi:** I just wanted to know what do you mean by the de-risk plan? Are you one of the things you said that was that you are looking at using the facilities for other products. So, could you get some more additional details on that or you will try to re-work the product itself Ranitidine? Are you moving out completely, or you will try to...?
- Jitesh Devendra:** It's not about moving out completely. When I talk about the de-risk there are some APIs which we have where the demand is beyond our capacity and we are looking at, can we qualify this block for the products where we are already having higher demand. That's one, second is we are also looking at what are the new products we can file from this facility, third is this facility is also available for our contract manufacturing business. So, these are the three ways what we are working in terms of how we utilize the capacity of Ranitidine.
- Vibha Ravi:** So, which are the other products that you are currently looking at that can be produced from this facility?
- Jitesh Devendra:** Unfortunately, we don't give product details, so I will not be able to answer that.
- Vibha Ravi:** You also spoke about opportunities in terms of diversification of supply chain that you are seeing and that's an industry-wide trend that you said. So, where the opportunities in this case, which

are the new molecules or where do you see your customers asking for more product areas, which products?

Bharath Sesa: Let me try and answer that, this is Bharath here. So, on two elements of the business on CRAMS for sure that this will lead to some positive discussions with the customer when it comes to diversification of supply chain. So that is very dependent on the customer, each customer has a different requirement on the product and we will work with them accordingly. On the overall APIs it's a bit too early to pinpoint to specific products. The general discussions as I said earlier are happening now at a very early stage with our customers, about some of their critical end products and we are looking at working with them on a few APIs. It's difficult for me to pinpoint specific products where I see this but what we can say is that these discussions are progressing well with our customers.

Vibha Ravi: Just to clarify one last time that is you are not completely moving out of Ranitidine though you are looking at other products to kind of supplement or replace the income that was coming from this block from Ranitidine, but you are not completely moving out of it?

Jitesh Devendra: We continue to support our customers for them to ensure that they can re-launch the product meeting all the regulatory requirements.

Vibha Ravi: So, there is a possibility of a re-launch step?

Jitesh Devendra: Yes.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for their closing comments. Over to you all.

Jitesh Devendra: We thank you again for participating in our Earnings Call and thank you for all those questions and we look forward to speaking to you in the next quarter. Thank you again.

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