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June 4, 2024

The BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai – 400 001

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

Scrip Code: 541540

Scrip Code: SOLARA

Dear Sir / Madam,

Subject: Transcript of the earnings conference call for the quarter ended March 31, 2024

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter ended March 31, 2024, conducted after the meeting of Board of Directors held on May 29, 2024, for your information and records.

The above information is also available on the website of Company at:
https://solara.co.in/investor-relations/investor-update

Thanking you,
Yours faithfully,

For Solara Active Pharma Sciences Limited

SUDDAPALLI MURALIKRISHNA
Digitally signed by SUDDAPALLI MURALIKRISHNA
Date: 2024.06.04 11:00:31 +05'30'

S. Murali Krishna
Company Secretary

Encl. as above

"Solara Active Pharma Sciences Limited Q4 FY '24 Earnings Conference Call"

May 29, 2024

MANAGEMENT: **MR. ARUN KUMAR – FOUNDER AND NON-EXECUTIVE DIRECTOR – SOLARA ACTIVE PHARMA SCIENCES LIMITED**
MR. POORVANK PUROHIT – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SOLARA ACTIVE PHARMA SCIENCES LIMITED
MR. ARUN KUMAR BASKARAN – CHIEF FINANCIAL OFFICER – SOLARA ACTIVE PHARMA SCIENCES LIMITED
MR. ABHISHEK SINGHAL – INVESTOR RELATIONS – SOLARA ACTIVE PHARMA SCIENCES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Solara Active Pharma Sciences Limited Q4 FY '24 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek. Thank you, and over to you, sir.

Abhishek Singhal: Yes. Thank you very much. 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 full year ended financial year 2024. Today, we have with us; Arun, Solara's Founder; Poorvank Purohit, MD and CEO; and Arun Kumar Baskaran, CFO to share the highlights of the business and for the quarter.

I hope you've gone through our results release and quarterly investor presentation, which have been uploaded on our website as well as in 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 may be forward-looking in nature and must be viewed in relation to the risks pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to the Investor Relations team.

I now hand over the call to Arun to make the opening remarks.

Arun Kumar: Thank you, Abhishek. Good afternoon, everybody, and thanks for joining today's call. First of all, apologies for the late uploading of results. We had some technical issues, which got resolved few minutes ago. So, apologies for that, and I do hope that many of you have had the chance to have a quick look of our presentation shared today.

Before I start, I just want to give a little bit of recap. The promoters had announced taking an active role in Solara approximately 6 months ago. We have been very focused on resetting the company for a profitable growth. Several actions were taken in Q3, which were typically one-off in nature. We had other actions that we had to take in Q4, mainly related to our COVID inventory. We were sitting on approximately INR120-odd crores of COVID inventory that was allowed for us to be manufactured under voluntary licenses from the innovators only during the COVID period.

As long as the WHO had COVID prescribed as a pandemic, we were allowed to freely sell this product. Those freedom to operate has been restricted. And while we have long shelf life on this APIs, we took a prudent decision to take a provisioning of this inventory such that the focus for this financial year and going forward would purely be based on an operating leverage the company is focused on.

Albeit a very tiny growth on revenues. I'm pleased to report in Q4, our primary objective has been achieved to a large extent to bring back the gross margin of the business to its historical highs, which are on about 50% -51%. We expect to achieve that during the course of this year as guided, and we have moved almost 10 percentage points in terms of gross margin.

Obviously, you will appreciate that when we are rationing our sales to ensure that we're bringing the discipline back into the company that we lost, sales ramp-up is a little longer than it is expected, but seeing the very positive trends that we have achieved in the first 2 months of this quarter, we are today pleased to reaffirm our guidance for the year, which is a revenue approximately INR1,500 crores and an EBITDA run rate of around INR260 crores to INR290 crores with an exit run rate of almost INR80 crores. So, we are reaffirming that guidance. And we are very confident that in our disciplined and measured manner, we will get there.

Several of our reset actions, unfortunately, had to be deferred by a quarter. When we announced our results in Q3, we were not aware of upcoming FDA inspection of our flagship Vizag plant, which we announced in the last quarter. We'll go into a retrofit to manufacture multipurpose products, and therefore, we would take certain corporate actions around that facility until such time we complete the necessary capex at the site to have that site redesigned beyond ibuprofen as we are currently with glut of capacity and not necessarily an equivalent demand for the capacity that has been created in the recent past.

Vizag plant was announced for an inspection, we obviously couldn't, under any circumstances, request the FDA to defer that. So, we continue to keep the lights on and that positively resulted in a zero 483, that supports our retrofitting and getting back to the market quick. We hope to complete all of those activities in Vizag in FY '25. And then that additional capacity of close to about 1,000 kilolitres will be available to us for growth in the years ahead.

At this time, we are very focused on improving our margin profile, our quality of business and the discipline in how we sell and collect. I think we have taken all the right actions towards this, and you will see those actions flowing through as earlier this quarter.

Secondly, we announced a rights issue to ensure that the balance sheet is supported for all of these actions that we have taken, but more importantly, to also ensure that our debt is reduced significantly out of the proceeds of the rights so that we have a reasonably good balance sheet, strong balance sheet, but also focusing on business which generated free cash and also de levering our balance sheet even further as we go.

I'm very confident that Solara will hit its historical highs of its EBITDA in the next 6 to 8 quarters, and we will meet our guidance, which we are reaffirming again today in spite of the 1-quarter delay that we had originally expected.

Overall, the business is looking good. We are adding new products and new customers into our portfolio. And we are working on a significant cost reduction program. All of these adjustments have resulted in an adjusted EBITDA reporting of nearly about INR 38 crores, a shade below what we had expected, but reported EBITDA is only INR 11 crores, but I can reassure our investors and listeners today that the part -- the additional part is behind us, and we now have a strong order book and the right leadership team in place to ensure that we deliver the outcomes that we have embarked on.

We do not have any specific other updates, except to say that the promoters are participating in the rights, and we also intend to upsize our entitlements depending upon how the rights issue goes. So, we think we will end up the rights issue in a successful note. And as most of you know the right issues open now, and it closes on the 11th of June, and we will update investors on how that goes. But we do not anticipate any challenges around that.

We do not -- I mean, we'd be more than happy to take questions. I have taken the thunder away from Poorvank effectively read out his opening statement. So, we will go straight into the Q&A session, and we'll address those questions between Poorvank, Arun and myself.

Abhishek Singhal: Muskan, go ahead, please with the Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Tushar Manudhane from Motilal Oswal Financial Services.

Tushar Manudhane: Sir, just on the base products in the API, at the industry level, at least for the peers and we continue to see the pricing erosion. So, if you could share your comments on the base portfolio of Solara? That's my first question.

Arun Kumar: So, Tushar, we actually have improved our gross margin profile in the quarter by 10 percentage. And I think that's not a function of what the reality in the market is. It's basically course correcting selling behaviour that Solara had in the last year or so where we saw our gross margins dropped quite significantly.

So, our growth in gross margin is not truly a reflection of what you are asking, which is the price is depressed. To an extent, yes. But I think by carefully crafting our product strategy and the fact that we have a long-standing legacy relationship with some of our customers, we have been able to mitigate that to a very large extent.

So, I think this question will play out more relevant if we are unable to keep these numbers at the 50-% odd gross margins which we expect to achieve soon. And at those levels we believe we would be amongst the better cost earners in the peer group. So, I think you need to give us some more time before our numbers pinpoint to your specific question, Tushar.

Tushar Manudhane: Got you, sir. Just to extend on to that, sir. Inventory for the base products at industry level is that now -- you think it's more or less now normalized, or you still think there is excess inventory, but we'll be able to optimize and hence maintain the gross margin?

Arun Kumar: So, we do still have, I think, an inventory in excess of INR100 crores, but none of this inventory is at risk and we will be using all of this inventory within this financial year. And that is why we made a very specific inventory provision only for the COVID-related products because we do not see the light of the data yet for any of those opportunities.

Although, like I said, we have long shelf life, so it would be just more prudent accounting. This will improve cash flow. So, we believe our cash flow should be as good as our EBITDAs or even better because our focus on inventory liquidation, free cash generation, cash to cash cycle reduction will all play through, and you just give us this quarter when you can actually see that evolving.

Tushar Manudhane: That's interesting to note, sir. And just lastly, this cost benefit of INR15 crores while this can definitely come through in Q1, but if I have to think about the full year cost benefit, let's say, quantify, how much should that one should think.

Arun Kumar: It should be in that INR60 crores to INR75 crores base cost reduction from the previous year.

Tushar Manudhane: Got it. And lastly, if I take this quarter under or even if I take, let's say, INR400 crores sort of a quarterly run rate in terms of revenue, if you could just break down that into regulated market? And lastly, for FY '25, how much of the growth will be from the new introduction?

Arun Kumar: FY '25 Tushar I mean the company historically had a regulated market sale of over 80%. And then we went a little haywire when we had added this incremental ibuprofen capacity where we expanded our unregulated market business and domestic business and that is what actually caused a lot of our problems. We have started that and we're now back to a historical 75% of our sales to regulated markets.

So, I think in FY '25 that would be our percentage. Our new product introductions are approximately about INR150 crores to INR200 crores of INR1,500 crores guidance. So new products would be about that. But we are seeing a lot of traction especially on our polymer requirements of the products like Sevelamer and other products in that group where we are seeing significantly increased demand.

So, what we're doing now is we are increasing our sales of our more profitable products, and rightsizing our sales of ibuprofen only to our legacy proprietary customers that we had relationships for 20 years, 25 years. And then course correcting our cost structure all leading to the guided EBITDA outcomes.

Tushar Manudhane: Thank you sir and wish you all the best.

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

Jagdeesh Sharma: Thanks for giving me this opportunity. I have just three questions. The first one is we ended FY 25 with a revenue of INR1300 crores and our guidance of INR1,500 crores for FY '25 side. what would be the key revenue growth drivers for FY '25?

Arun Kumar: Well, I think I mean, INR1,300 crores in FY '24 is an aberration of our H2 actions that at the cost of revenue we were determined to course correct our discipline in our business approach. So like Tushar mentioned earlier we guided INR400 crores per quarter run rate, exit run rate. So, it's not a great growth, it's about 15%, 16%. And that's just through a disciplined approach for marketing and sales actions we are very confident of getting there.

Jagdeesh Sharma: Okay. The sales will be like on a longer-term like 3 years to 5-year basis what is our aspirational growth target?

Arun Kumar: So, we're looking at a 15% to 18% top line CAGR after FY25 with the Vizag facility getting back into operations retrofitted for multipurpose products.

Jagdeesh Sharma: Okay. My last question is what is the potential revenue that we can achieve from a current capacity division?

Arun Kumar: Potential revenue from?

Jagdeesh Sharma: Current capacity.

Arun Kumar: Okay. So, I mean, that's a function of product mix Jagdeesh. It's not necessarily a straight-line calculation, but if you shift your product mix, we have very large catastrophes. I think we do not need any new capex or any large capex except for debottlenecking and annual maintenance. We can probably take revenues on our asset base to close to about INR2,500 crores.

Jagdeesh Sharma: INR2500 crores. Okay sir. Thanks sir all the best for FY25.

Moderator: Thank you. The next question is from the line of Naman, an Individual Investor. Please go ahead.

Naman: First question is there any additional one-offs that we -- that are pending or which we are expecting over the next coming quarters?

Arun Kumar: No. And we have called that out on our release like I said our release with our apologies that it was released late, but we have called out there that there are no more exceptional items on our balance sheet that you need to worry about.

Naman: Got it. And second, on the operating cost structure that we have mentioned it's around INR115 crores in Q2 on a distant basis. And this quarterly cost base that will be maintained for the entire FY '25? And what is the cost optimization efforts that we have been taken, which has been leading to the reduction of cost by almost INR 15 crores per quarter?

Arun Kumar: So, we've already taken actions in terms of Vizag, like I said, we will right size that facility to see extended capacity utilization. We are also doing that across our entire operations. We have to be more cost competitive, frugal allocator of cost to run up business of this nature. And that's exactly what we're doing.

So, to answer your first question, I'm very confident that the INR15 crores run rate adjusted that you see, you will see flow throughout the year. And by the exit we will have a few bumpy quarters when we have to probably take one-off costs, but our exit quarter run rate will be averaging around what you see adjusted this year -- this quarter at INR115 crores.

Naman: Got it. That's it from my end. Thanks a lot.

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

Rishabh Gang: I actually wanted to understand your rationale of why do we have actually opted for the partly paid right issue structure rather than doing a full amount right issue? Is there our purpose was to get this amount and reduce the debt. So, a full amount would have just reduced debt directly by INR350 CR. INR400 CR. Now since we are doing it in the partly paid instalment basis the debt will reduce on an instalment basis and the company will still incur some debt costs. So, what was the rationale behind that, sir?

Arun Kumar: Well in our way we obviously were upfront with our investors since the last two quarters that there is a major reset that we are undertaking. And we also wanted to make it practical and reasonable you're right, some investors would have preferred us to do a fully paid-up rights, but the general consensus from our advisers is that a partly paid rights is more practical in these circumstances. So that is why.

So, while we are talking about debt reduction, we still are very confident of reducing debt significantly greater than the rights issue amount. Because, like I said in my opening statement, we still have lot of inventory that we'll liquidate this year. So, we expect our cash generation to be greater than our EBITDA. Consequently, there would be a very significant debt reduction from operations. So, we're very confident that this is the right process that we have adopted in these circumstances.

Rishabh Gang: Yes. But you understand, right, INR280 crores is getting in April 25, April 26. 10% on that, the company would have saved a lot on interest cost. But fine, I got your point. My second question, sir, is regarding the insurance claim. Sir, does the company have an insurance policy for loss of inventory, capital asset and loss of profit as well? And what is the state of the claim on all fronts? And how do we foresee the insurance cost rising due to our claim history now?

Arun Kumar: Well, Arun, would you like to answer the coverage on the insurance? In terms of the claim, we have made a claim for the losses in Puducherry. The claim is being processed and we have not made any provisional other sites that we potentially would in the near term. But Arun, you can explain the insurance coverage in terms of what and how does it cover?

Arun Kumar Baskaran: Sure. So, all of the facilities are covered under insurance policy. For the Pondy incident, we are claiming around INR50 crores insurance. And the process is on. We are submitting documents. And maybe in a month's time, we should get the first adhoc amount of INR10 crores.

Moderator: Thank you. The next question is from the line of Vishal Manchanda from Systematix Group. Please go ahead.

Vishal Manchanda: Thanks for the opportunity. Sir, wanted to understand how many DMFs would you have for the U.S. markets? And out of these DMFs, how many would you be currently supplying to your customers?

Arun Kumar: Poorvank, could you take that?

Poorvank Purohit: So, we have close to 95 DMFs already filed at the U.S. market. And right now, we have commercialized roughly 25 to 30 products. While we are also evaluating a couple of other products if we get the right cost improvement programs in place, we may be able to launch some of the other products. So that evaluation is going on in parallel as a part of the reset. But having said that, I think we still have focus also on some of the existing products, wherein we already have an established market in regulated markets. And we would not like to lose that market share.

So, the focus, as Arun rightly pointed out, would be on gross margins. So that while we continue to keep on passing on the price benefit to the customers, we also improve our margin or maintain the same margin by working on the cost improvement program so that our gross margin does not come down, in fact, goes up only. So, I think that could be the strategy. And I think we have a lot of juice left in the system to capitalize on the existing set of DMFs.

Vishal Manchanda: And for the 60-odd DMFs where you're currently not active basically, so is it because the patent is yet to expire for these DMFs, or you don't have an ANDA filer kind of…?

Arun Kumar: Correct. It's a combination. Very few DMFs we have that patents are still on. That's one. So, it's more to be more competitive. We are doing a lot of work in improvements in our processes to ensure that these DMFs are compatible to best-in-class in terms of pricing. And we will make inroads with some of these DMFs for our growth, because we have a lot of captive DMFs that we need to first maximize before we start doing a lot of new work in R&D.

Not that we aren't doing much work in R&D, but we're doing very targeted R&D activities for quantum leaps. So, we are bringing many of these DMFs back to life through a combination of efforts. And you will see that could be also one of the other reasons why growth will be quite consistent going forward.

Vishal Manchanda: Got it. And just I'm not sure whether you have given this, but what percentage of your sales is domestic and exports?

Arun Kumar: Over 75% of our sale is a regulated market. But some of that then also happens in the domestic market because we sell to Indian formulators who export, right, so that we add that as part of our regulated market sales.

Moderator: Thank you. The next question is from the line of Divy Agrawal from Ficom Family Office. Please go ahead.

Divy Agrawal: I just wanted to understand your comment on the gross margins. You said that due to our good relations, we are able to mitigate the impact of increasing raw material costs. So, is it that we have a special agreement with the suppliers or something like that?

Arun Kumar: Not suppliers, buyers you mean. We do have a long-standing relationship with Big Pharma across various molecules for several years. Those products were not impacted very badly with the pricing. We took off all the low-margin sales out, and that is why our revenues have come down, and we have established our historic gross margins or very close to it. Now you will see revenue growth coming in, and that's when the opex will gradually flow through.

It's just a readjustment of our large volume Ibuprofen sales that we got distracted from being focused only on the regulated market and to our older customers to having expanded that universe and then getting into trouble with selling price -- low pricing. So, we corrected the Ibuprofen part last time. We don't do that anymore in the last quarter, and we are now solved for the COVID inventory and now we can look forward to a cleaner quarterly reporting of growth operations and focus more on the balance sheet and free cash generation.

Divy Agrawal: Okay. Got it, sir. So just wanted to know the Ibuprofen contribution towards our sales in this year, what would be the contribution?

Arun Kumar: About INR500-INR600 crores.

Divy Agrawal: Okay. Got it. And on the COVID inventory, so are we allowed to sell those COVID inventory, or do we have to just write off them?

Arun Kumar: So, we can't sell any of those products until patents expire, which is near term. And then there should be COVID worldwide. I mean there are sporadic performance, but we can't sell as per our voluntary license because these are still under patents. So, we are already provisioning it. We are not written off that inventory. And then we'll see how opportunities come about it, and we'll keep you updated on progress.

Divy Agrawal: Okay, sure, sir. And about the new products that we have, can you give some colour on the new products? I mean, what kind of new orders are we...?

Arun Kumar: Specifically, we don't talk about products. It's still either they are too confidential, or they are not normally the norm that we disclose specific products. There are ways for you to find out, but we do not disclose this as part of our earnings calls.

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

Arun Kumar: Thank you all for today, and I appreciate your time. If you have any questions, please do not hesitate to speak to the company or to our Abhishek and we'll get back to you the answers to your questions. Thank you and have a good day.

Abhishek Singhal: Yes. Thank you all. Thank you all for joining the call.

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