"Solara Active Pharma Sciences Q1 FY19 Earnings Conference Call"

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MANAGEMENT: MR. JITESH DEVENDRA – MANAGING DIRECTOR, SOLARA ACTIVE PHARMA SCIENCES
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Moderator: Ladies and gentlemen, Good day and welcome to the Solara Active Pharma Sciences Q1 FY19 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: Thank you Stanford. A very good afternoon to all of you and thank you for joining us today for the Solara Active Pharma Sciences earnings conference call for the first quarter financial year 2019. Today we have with us Mr. Jitesh Devendra – Solara's Managing Director and Mr. Hariharan – CFO to share the highlights of the business and financials for the quarter.

I hope you have gone through our results release and the quarterly investor presentation which have been uploaded on our website as well as the stock exchange website. The transcript for this call will be made available in a week's time on the company's website. Please note that today's discussion maybe forward-looking in nature and must be viewed in relation to the risks pertaining to our business. After the end of this call, in case you have any further questions please feel free to reach out to the investor relations team.

I handover the call to Jitesh. Over to you sir.

Jitesh Devendra: Thanks Abhishek. Hello everyone, I am Jitesh, heading the operations for Solara and on behalf of all of us I welcome you to our first earnings conference call. As Abhishek mentioned along with me is my colleague Hari, who leads the finance function. So, from an investor relations standpoint this earnings call is a fresh beginning for us and we will ensure that we will institutionalize this periodically.

Before we get into the quarter as we have some new participants on the board, I want to spend a little time in taking you through our strategic journey and our plans to become a global pure play API company with sustainable growth. The evolution of Solara brings together the carve-outs of the API business of Strides and human API business of SeQuent. Our business inherits a vibrant pharmaceutical experience of these two entities and the combined strength strongly favours us in the pharmaceutical industry which is consciously preferring standalone API companies given the tightened regulatory environment both on the quality as well as on the environment side. We have deeply understood the change in regime and hence built Solara on the right values. That deliberately favours superior quality, continued compliance with supply assurance and commitment to our partners. These basic tenets consequently drive our five globally compliant API facilities located in Puducherry, Cuddalore, Mangalore, Mysore and Ambernath, which is subject to the shareholders' approval and we supply our products to 40+ countries including US, Europe and Japan. These are part of our infrastructure integrated with an in-house R&D engine which will not only ensure the competitiveness of our products but will also generate sufficient IP and new products for the future growth. So, that's a brief about Solara.

And moving onto the quarter under discussion; the first quarter of the new fiscal marks a positive beginning for us. While registering a strong financial growth over the previous year we have grown our business sequentially and have also led a stable base for expansion. The margin expansion continues to be a high priority for us and I'm glad that our efforts are bearing results. Our focus on building a regulated market strategy also reaped in results. At this quarter we had 78% contribution coming from US, Japan, Europe with registering a growth of 7% quarter-on-quarter. These markets will remain an anchor for our growth ahead and we are happy to share that we have significant visibility for us to deliver.

On our R&D, we have stepped up our efforts and investments in the program and as a result a new visibility on filings, our product launches and growth opportunities to remain healthy. We have two R&D centres, one which is based in Bangalore and the other one in Chennai. That will serve for our growth with 8 to 10 annual filings and cost competitiveness in the existing products. These centres will also pivot another leg in the revenue stream with opportunity around the CRAMS business. The good news in this space is the recognition of our Bangalore R&D centre under platinum green building standards. The CRAMS business for now has limited contribution in the overall revenues. But as we go on and with the efforts we are putting in, this will be one of the essential catalysts for Solara's growth trajectory.

Operationally we had a comfortable quarter with multiple site inspections by customers. We have also been proactive in compliance and future readiness and hence we have also proposed to add additional capacities in the operations through the buyout of the US FDA approved facility at Ambernath from Strides. We are well on our part to becoming a leading pure play API company globally. We remain confident of positive outcomes with a sharper focus and a differentiated strategy around our products, infrastructure, growth markets and customers. Thank you once again. That's all from our side and we are now happy to the open floor for questions and answers.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Amey Chalke from HDFC. Please go ahead.

Amey Chalke: If you can explain the difference between the reported P&L numbers and the numbers which we have given in the PPT because there is a difference on the top line number for the last quarter which we have compared?

Hariharan S.: The discontinued operation has been re-casted for the Q1 FY19 in line with the requirement and similarly Q4 FY18 has been recasted to be aligned with the continued operations.

Amey Chalke: But there is a huge difference I guess it is around 200 crores difference is there in the top line of the number which you have given in the reported format and the PPT format.

Jitesh Devendra: Which quarter you are asking can you clarify?

Amey Chalke: The 500 crores kind of a top line you have mentioned in the comparison with the June quarter.

Hariharan S.: Rs.500 crores top line pertains to for the period October 1, 2017 to March 31, 2018.

Amey Chalke: If you can explain the seasonality in your business, how we should expect going ahead in light during the year, how would be the top line growth divided between the two halves and how would be the profitability, is there any seasonality in the business?

Jitesh Devendra: We do have some seasonality on our business because some of our APIs also depend on the cold and flu season. For this financial year our H1 maybe about 40% and H2 would be 60% because we would also be seeing some of the new product launches happening in H2. Our goal is to make it consistent across the quarters but this financial year it will be 40-60.

Amey Chalke: In terms of profitability how it is viewed like where you see the supply of more profitable products, in which half?

Jitesh Devendra: As you would have seen in the Q1, our numbers are far better than the previous quarters. The profitability also would be in the same ratio, but we have seen some positive developments in the Q1 itself where some of the Cost Improvement Programs have kicked-in much earlier than anticipated.

Amey Chalke: What do you think are the key APIs going ahead that would be driving this business and how is the pricing environment in the API side? We got to know from many companies that API prices are going up in response to the hike in the intermediates, so how is that market scenario at his point of time and how it will help with respect to our portfolio?

Jitesh Devendra: To answer your first part on the APIs, we have several key APIs. We just don't have one. We have leadership position on products like Ibuprofen, Ranitidine, Gabapentin, Praziquantel. We don't give a revenue breakup in terms of our APIs. But those are key APIs and you are right on the pricing of the APIs we have been able to pass on some of the cost increases what we have from China to our customers. That has seen a small positive impact even in the Q1 in terms of our margin expansion. The key over here in terms of the supply chain continuity and this is where the API playing a pivotal role given the situation what we see from China, the API supply continuity is a key for our customer. And that’s what we are doing for the key starting materials as well as for advance stage intermediates, we have identified and put it at the priority that we are bringing it in house or we're getting it locally manufactured so our dependence on China also comes down.

Amey Chalke: Overall for the whole year what kind of operating cash flows we would be looking at because we also have around 500 to 600 crores kind of a debt on our books, so considering how would be the operating cash flow and the CAPEX for the full-year?

Hariharan S.: The CAPEX will be spending around 100 crores for the current financial year for the existing operations CAPEX. 40% will be for the internal, the modification and the regular maintenance CAPEX and 60% for the expansion CAPEX, product related for introduction of new products and capacity expansion for the existing products.

Moderator: The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Out of the 600 crores of debt, 300 crores is working capital and 300 crores is long-term. So, can you examine on your company level if you factor the receivables, will it improve your credit rating and hence reduce the interest cost on the whole of the loans? Can you just examine for this like I would request Hari to do that?

Hariharan S.: We have already started this exercise and have appointed one of the leading credit rating agencies. They have just starting the project and within a couple of months the assessment shall be completed. The term loan and working capital are in the ratio of 50-50. Our current working capital mostly funded by the PCFC and the term loans are rupee term loans. We are in discussion with the banks to convert the rupee term loan into to the US dollar loan to reduce the interest cost.

Pranav Tendulkar: What I also suggest is since almost all your consumers will be having great credit rating. To get any banks present in both the countries and you factor the receivables.

Hariharan S.: We have already taken action on this.

Pranav Tendulkar: How you feel that things are different from Shasun, Strides and then Solara, are things very different, like in management structure like in incentives etc. so before Strides merger, during Stride days and now, what is the 3 or 4 key differences that you find?

Jitesh Devendra: I will restrict this response only to Solara. So, Solara as you know is a pure play API company, so we are clear in terms of our business model and how we want to move forward. As I mentioned in the call we have two business models, one is the Generics and the other one is the CRAMS business. Though we have some CRAMS business today, but we will be moving aggressive on that front. So, in terms of the business model we are clear, in terms of the facilities what we have going is the compliance track record both in terms of the quality as on the environment side which we are pretty confident. In terms of the people there is long continuity of the people in the system, so these are some of the key factors and even we are looking to retain the high impact full people rather than designations. We would also announce certain schemes that would involve in the long-term retention of employees

Pranav Tendulkar: Would you also highlight to us what are the key KPIs of top management team over next 3 to 5 years?

Jitesh Devendra: Every year we evaluate because as I said we have a three-year goal in terms of where we want to be and based on the three years we have broken down all the action points for each year what we need to execute. So, we have top five themes for this year which is on quality, environment, finance point of view, then new product introductions and our base business continuity. so those are the five top themes what we have considered.

Pranav Tendulkar: Can you spend some time on detailing how the 15% growth is will come because in your PPT you had highlighted various kind of opportunities. But I would like you to distribute this over how many will come from new DMF, how many will come from existing base and increase penetration over the geographies so that we have a decent idea of where the company is going.

Jitesh Devendra: We don't break our growth plan into these buckets. But we have clearly mentioned what are the buckets we are working in and these would be the pivots in terms of the growth. we don't give a breakdown as to how much percentage will come from each of these pivots.

Moderator: The next question is from the line of Kunal Randeria from Antique Stock Broking. Please go ahead.

Kunal Randeria: I would like to understand the revenue progression. First quarter last year we did around 235 crores in revenue then there was a bump up in the second quarter which I presume would be because of Sevelamer Carbonate then again, the third quarter the revenues impacted because of Ibuprofen production being halted and then again we started to see a ramp up. So, just wanted to understand what has been the underlying growth in the business?

Jitesh Devendra: From the last quarter to this quarter we are definitely seeing consistency in terms of the growth from our existing business. So, the base business where we are today that we continue to grow mainly coming from new markets as well as from margin expansions. We're also rationalizing in terms of our capacities to ensure that the products what we manufacture meet a minimum gross margin. So, yes, whenever we have a launch of a new product we expect that it would do better than or it will meet the expectations what we have But these are the factors what we build in for any new product launches. As I mentioned in my first point that this financial year we do have 40-60 ratio because of the seasonality as well as from the new product introductions including the revenues from validations of those new products

Kunal Randeria: So, R&D expense which is gone up to around almost 10 crores, is it mainly because from the acquired entity and it should remain at this level or are we going to ramp it up a bit more?

Jitesh Devendra: It will remain at this level as what we have highlighted in the Q1.

Kunal Randeria: On the margin front, so EBITDA margin if we exclude that 10 crores of FOREX loss we have seen quite a substantial jump in margin despite R&D going up and gross margin remaining flattish. Does these operating expenses like employee expenses, have we taken those usual year-on-year increments in this quarter or will you be taking in the quarters ahead?

Hariharan S.: It is the annualized basis that all the provisions have been created. We have settled for the union settlement in Pondy and Cuddalore in this current quarter and that impact has been already considered in our business.

Kunal Randeria: So, this should be then the run rate going forward also.

Hariharan S.: R&D cost run rate shall be in line with the actuals for Q1.

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

Tushar Manudhane: Just missed out on the opening remarks so just wanted to check if you have spoken about the Ibuprofen prices on year-on-year basis for Q1 FY19.

Jitesh Devendra: As I mentioned before we don't give a revenue break-down or we don't go product wise breakup and that information is very sensitive and confidential.

Tushar Manudhane: But have you seen sharp increase in the Ibuprofen prices for the quarter?

Jitesh Devendra: The overall portfolio of our key APIs we have seen price increases.

Tushar Manudhane: If you can just help me break the overall revenue growth into volume and price wise?

Jitesh Devendra: Overall growth for this API is from 3% to 5% .

Tushar Manudhane: This is for year-on-year basis?

Jitesh Devendra: That’s quarter-on-quarter basis.

Tushar Manudhane: And on year-on-year basis?

Hariharan S.: Year-on-year on improvement, however we don't have product wise revenue data for the last financial year as the same is pertaining to Strides and SeQuent. We will have only information from the Quarter 3 of the last financial year.

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

Nitin Agarwal: When you look at the landscape of standalone API players like yourself over the last 3 to 4 years in your own assessment how has this landscape changed for API players per se if you can probably just throw some your own impressions on in terms of how are things involved in terms of competition, in terms of demand supply mismatches which have come through in the sector?

Jitesh Devendra: What we have seen from an API landscape is if we have to really map our peers for just a pure play API company, then we will be probably one amongst the very few companies because now a few API companies have forward integrated to the formulations business. So, that's a one change we see that there are few companies which are just for pure play API company. The second is from the compliance point of view as you have seen in the last three years, the focus in terms of the compliance and moreover now the US FDA's oversight on the KSM as well as advanced stage intermediate suppliers because now the US FDA will also have access to inspecting those facilities. So, I think that's the one major change because the entire value chain of the API that is the key stages are now coming under the purview of the regulatory inspections. The third biggest one is what we are seeing today is the environmental compliances and that's what we see high volatility in terms of pricing as well as from the supplies coming from China and this is also going to impact companies who do not have zero liquid discharge at least in the future even though today it is allowed to send treated effluent into marine discharge but with the years we believe it will be a zero liquid discharge and I am happy to say that all our manufacturing facilities operate zero liquid discharge. So, these are some of the significant changes what we are seeing in the API landscape.

Hariharan S.: Even in India CPCB has taken a very strict action on the generic companies. We comply with the CPCB online connectivity and all the standards required by CPCB.

Nitin Agarwal: In terms of nature of your interactions with clients, customers that you have been dealing with over the last two years, have you seen any meaningful changes there in terms of maybe a newer set of customers coming to you or something on those lines?

Jitesh Devendra: Definitely one positive impact we have seen is, business with our current clients is expanding. Being a pure play API Company, so that is a definite positive change we have seen, next is in terms of the new markets. So, while we export to +40 countries but every year we take at least one focus market that we should look at entering like the way we did it for Japan 10 years ago and that business is paying the results today.

Nitin Agarwal: In terms of your customer mix, you are entirely working with generic companies or you are working with innovators for their off-taking molecules and how do you see this thing playing out?

Jitesh Devendra: We have a good mix of both, the big Pharma on the innovative side as well as on the top generic companies, so we have a mix of both in our portfolio.

Moderator: The next question is from the line of Saikiran Pulavarthi from RW Investment Advisors. Please go ahead.

Saikiran Pulavarthi: What is the net debt as of 1Q FY19 % and what will be the net debt going forward once you get the approval to acquire Ambernath facility? The second question is the foreign-exchange, what is the hedging policy and how do you see this going forward in the context you had big loss this quarter?

Hariharan S.: We will be ending up with around Rs.625 crores debt level. The FOREX policy we have just started working with a consultant to get a good policy. because now the rupee has reached at 68.60 level and 65% is our exports. We are net foreign exchange earner but however we have got PCFC loan also in our books. So, we are working on the good foreign exchange policy which will be implementing in a couple of months' time to ensure that our EBITDA, our profitability improves and how to avoid loss going forward because there is a sudden jump from 65.47 now the rupee has come to 68.60, nearly Rs. 3 drop over a period of three months.

Moderator: The next question is from the line of Nimesh Mehta from Research Delta Advisors. Please go ahead.

Nimesh Mehta: Just wanted to understand the pricing situation essentially because of the environmental clamp down. What do you think is the sustainability of these prices, do you think it will remain for quite some time or you think one is the situation settles down in China maybe the prices will come back to where it used to be, some colour on that will be very helpful?

Jitesh Devendra: I will respond to your question in two parts, one is about the situation in China and prices coming back to its original level I think it is going to be at least a year or a two-year period. That's what I get a sense when I meet the Chinese suppliers because now I have started to meet our key Chinese suppliers to get a sense of what is happening in China. And one of them who I met day before yesterday, they said the same situation which I mentioned earlier that all the Chinese companies are now being forced in terms of investing in zero liquid discharge. So, still today the issue remains as is and it may take some time when I say is probably one to two years. From a pricing point of view when we look at our business in the next three years, we do build in some sensitivity if in case the supply chain from China improves and the prices come down then we factored that in terms of our price. As Hari has mentioned this we have seen an overall price increase of 1%, we also look at what is the sustainability because most of these key APIs we have been manufacturing and selling that for minimum (+10) years and our customer base is pretty stable.

Nimesh Mehta: As far as our company how many products across the board we have seen price increase in? I also wanted to know whether we are fully integrated when it comes to intermediate manufacturing because there I understand the price increase has been more or less 100% or quite more widespread than API so that might be a negative part for us.

Jitesh Devendra: We are definitely seeing price increases on the KSM we have and been able to pass on to our customers and where there is no price increase we do have the cost improvement programs running in. We have identified which are those—from a priority point of view which are the—APIs which needs to go into a cost improvement program. On the backward integration part of it we've started with one key intermediate which we will be initiating the validation now and this year at least the goal is for two other APIs we will be developing in house the key starting material and then start validation starting first quarter of next financial year.

Nimesh Mehta: So, it's pretty low, the full integration on intermediate manufacturing are around API is not that high, is that the right understanding?

Jitesh Devendra: Our dependency on China is also not that high and Hari can tell you what is the dependency we have on China. But our dependency on China is not that high.

Hariharan S.: Most of our KSM material required for our kind of product and the import around 15% to 20% of our raw material requirement is only from China, so we are not much dependent upon because we have diversified that procurement from Western world also so that we have security of supply and also price arbitration. Moreover we are developing few starting materials to support.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: My first question revolves around your revenue. We have seen about 30% kind of a growth this quarter on a YOY basis, so if we take 1 to 2 years' time horizon is that a sustainable number we might be looking at overall on a year-on-year basis?

Jitesh Devendra: What we are seeing is for the next three years including this year we are looking at revenue growth of 15% year-on-year.

Deepak Poddar: That means the remaining three quarters your growth will be much muted given we have already grown by 30% this quarter.

Jitesh Devendra: As I mentioned from an annualized basis will be at least a minimum of 15%.

Deepak Poddar: In terms of our debt, interest cost this quarter jumped on a quarter-on-quarter from 12 crores to 18 crores while our debt level is around about same, so what has led to….

Hariharan S.: We have explained in our press release that interest cost includes around 2.9 crores of the FOREX loss which being classified as interest cost in line with the Ind-AS requirement. However, in our EBITA calculation we have included the same as FOREX loss.

Deepak Poddar: This 9.8 crore FOREX loss that is separate from this 2.9 crores.

Hariharan S.: Including that.

Deepak Poddar: But still if I adjust for 3 crores also then 15 crores interest cost versus 12 crores….

Hariharan S.: 15 crores will be there in this for this current quarter.

Deepak Poddar: So, is that a going run rate we are looking at?

Hariharan S.: We have explained that we are in the process of converting rupee term loan into dollar term loan to reduce the interest cost.

Moderator: The next question is from the line of Vipul Shah from Ripple Wave. Please go ahead.

Vipul Shah: Are we amortizing the goodwill which we have sort of reported and presented in the presentation form the P&L?

Hariharan S.: Product goodwill is being amortized over a period of 10 years but however the goodwill on the purchase is not amortized so that is kept as a constant

Vipul Shah: Can you just let me know what is the actual net debt number as of this quarter end?

Hariharan S.: Rs.625 crores.

Vipul Shah: This will be since the shareholder approval is still pending so on the acquisition of the Ambernath unit whatever debt we will take will be additional?

Hariharan S.: No, our loan will be in the range of 625 to 650 crores even after considering the payment for the Strides acquisition of the Ambernath facility.

Vipul Shah: If you can let me know how much annualized basis the revenues we would get from Stride and Sequent put together?

Jitesh Devendra: Our sales to Sequent is very insignificant compared to the overall revenue. But yes Strides because they are in the finished dosage business and they are market leader in some of the APIs. The revenues to Strides would be in the range of anywhere between 15% to 20%.

Moderator: The next question is from the line of Ashish Rathi from Infina Finance. Please go ahead.

Ashish Rathi: Just a basic request first the kind of information or the kind of segmentation that we have got for the company is quite limited in terms of helping us understand and track the company on a quarter-on-quarter even on the Y-on-Y basis. If you could just help us understand little better in terms of what kind of product segments we are in or tell us about the top 3 molecules, they contribute as to how much as a percentage of sales for the company.

Jitesh Devendra: What we can give is we can give you an indication of what is the top 10 molecules as a percentage of our revenues. The top 10 molecules contribute to 82% of our revenues that is in the Q1 quarter. And the segments what we offer it is we operate in the pain, GI, epilepsy as well as in the anti-malarial, so it's a wide range of therapeutic categories.

Ashish Rathi: You said 82% from top 10, out of total of how many molecules would be there?

Jitesh Devendra: Commercially we would be about 50.

Ashish Rathi: Most of these molecules, the ones Ibuprofen, Ranitidine, Gabapentin and all these are being manufactured by the same team from Shasun in earlier days and obviously these are very age-old molecules, so what is the kind of volume growth these molecules are seeing as of today ex of the price increase? So, what I'm trying to understand is if we exclude the China impact in the near term what kind of sustainable growth trajectory these kind of molecules have seen?

Jitesh Devendra: These molecules when you look at all these molecules like Ibu or Prazi or Rani of Gaba I mean the IMS data at least shows that the overall growth is anywhere in the range of 3% to 5%.

Ashish Rathi: And the company growth for these molecules in the last 3 to 5 years has been how I mean we've gained market share or been in line with the market and the growth rates for bigger products like Ibu, Gaba and Ranitidine?

Jitesh Devendra: We don't give out a product level analysis.

Ashish Rathi: I'm not asking at the product level, just like on a company level, the bigger molecules are going in line with the market or we seeing higher growth than the market and we've gained market share in the last three years?

Jitesh Devendra: So, what I can say is for all the key molecules our goal is definitely to be the market leaders at least among the top three. And from a geography we are widespread and we are not dependent on one market, so we are there in US, Europe as well as Japan and other markets. So, we are widely spread in terms of the geography.

Moderator: The next question is from the line of Vaibhav Gogate from Ashmore. Please go ahead.

Ashwini: This R&D business acquisition that was done on 1st of April where the revenue was 3 crores and expenses were 7.27 crores and when I look at the presentation I see R&D cost which is 9.7 crores, so two questions here how do I reconcile this 7.27 crores number with that 9.7 crores number that's number one? And the second is that what do you think is a long-term revenue impact, is it just going to be the CRAMS business or is there something that's going to be additional in terms of revenue opportunity from this R&D acquisition?

Jitesh Devendra: I will answer the second question. the growth what we are seeing for the next three years is majorly going to be coming from the generic APIs what we will be developing because as we get into the CRAMS business we also have to be cognizant that it will take the time and effort in terms of convincing the big Pharma companies in terms of our capabilities. So, we are estimating that the revenues from the CRAMS will only kick in from the third year. When I say third year would be from FY22. the DMF filings would be the key focus for the R&D centres.

Ashwini: So, this is more of a necessary cost towards filing your new DMFs and new product development, so the argument here being that this is required just to bolster the sales growth over the next three years, not really a CRAMS capability that you've acquired immediately that will come through over a longer period, is that how I should figure it out?

Jitesh Devendra: We are going to showcase R&D Centres CRAMS business but the revenues from the CRAMS will only come in probably two years down the line

Ashwini: So, when I look at your Slide #4 why do you break out the R&D cost as a post operating EBITDA, it should be above operating EBITDA line because it's an ongoing expense and it's a business as usual expense, would that be a correct way to look at operating EBITDA margins?

Hariharan S.: From current financial year onwards, we have strengthened our R&D team. That's the reason in Q1 FY19 there is a increase in the R&D spend. However in Q1 of FY18 there is no R&D spend and in Q4 FY18 there is an R&D spend of Rs.2.80 crores. We have shown operating EBITDA before R&D to clarify the increased R&D spend in the current quarter.

Jitesh Devendra: From this financial year onwards, we will give full year R&D cost and then we can have a like to like comparison.

Ashwini: And second question is on this discontinued operation at Mahad, the profit and loss that you've broken out for this discontinued operation, would this be a reflection of the loss embedded in the March quarter or in the first quarter of the last year as well or how should I think about it?

Hariharan S.: That has been the current financial what we have given has been reflected after taking out the loss during the last financial year so that it gives the continued business results only.

Ashwini: This effective date was May 19th of this transfer, what is the effective date of this sale?

Hariharan S.: We will be able to conclude the transaction by this month end.

Ashwini: I misread it, what it says is low has just taken the decision to get out of that.

Moderator: Ladies and gentlemen we take the last question from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.

Gaurav Maheshwari: One I just want to understand this unit that we are divesting; I presume this is the only unit that we acquired from Sequent?

Jitesh Devendra: There are three sites which have come from the SeQuent's table, Mahad, Mysore and Mangalore.

Gaurav Maheshwari: So, we are retaining Mysore and Mangalore and selling off Mahad?

Jitesh Devendra: Yes.

Gaurav Maheshwari: And Perrigo is what we are acquiring from Strides for which the shareholder approval is pending?

Jitesh Devendra: Yes.

Gaurav Maheshwari: So, for Perrigo we have spent 100 crores for acquiring that and then we have again acquired this Sovizen Lifesciences Private Limited which is R&D business and then there is another R&D that you have acquired from Stride Shasun, so can you just explain three different R&Ds that we have and what contributes what and why have we done that and also what is the valuation that we've paid for this Sovizen Lifesciences.

Jitesh Devendra: Just a correction we have two R&D centres that is the Sovizen which is in Bangalore and the research centre in Chennai. The Perrigo facility is a commercial API manufacturing facility which comes with a US FDA inspected tag on it and given that our demand for the products especially from the US going up this was we felt this is a right thing to do in terms of acquiring Ambernath which is already have US FDA because if we have to go for US FDA inspected for our facility which is non-US FDA that would take some time. In terms of the rational of having two R&D centres as I mentioned our business plan is one is in the generics and the other one is in the CRAMS. And showcasing our capabilities of our research centre for the CRAMS business that's one of the key reasons why we need to have these two R&D centres because as our business grows we can dedicate one R&D centre just for our CRAMS business and that way that also give the comfort to our customers from an IP and confidentiality point of view.

Gaurav Maheshwari: On the business front if I see the result table, it says 523 crores is a previous financial year ended March 31st numbers and we refer to the presentation, it talks about last year's pro forma revenues as 1121 crores.

Hariharan S.: In the pro forma document what we have given is for the whole financial year from 1st April 2017 to 31st March, 2018 so that it gives a full year feature. It is on pro forma basis. What we reflected in our published documents is for the period for Solara from 1st October 2017 to 31st March 2018. It's six months because the effective date of the merger is 1st October 2017.

Gaurav Maheshwari: So, business size that comes to Solara is 1100 crores now?

Hariharan S.: Yes, that's an overall just want to give a perspective that what is the year as a whole, last year revenue of 1147 crores with a 143 crores EBITDA. That's the reason that we have given FY18 recap so that everybody knows about it.

Gaurav Maheshwari: I am just saying see the margins, the margin looks spectacular if I remove this FOREX loss which could be one-off, so 17.5% or 18% kind of a margin for an API business given the situation can you just explain is this is a sustainable margin because we understand Ibuprofen prices have gone up in the last quarter and if I'm not wrong you have not integrated to the Acetyl acid stage so where again the prices have gone up, so in that case what is the delta that we have gone from the time for Acetyl spread and if you can explain whether these margins are sustainable because even 15%-20% and we have seen Chinese intermediate prices going up, all these are counterintuitive and still the margins are superb, so just wanted to understand is there a one-off to it?

Jitesh Devendra: It has various factors built into this and we really cannot say this was only because of one reason because in the Q1 as I mentioned earlier our cost improvement program kicked in much earlier than anticipated and that will continue in terms of the efforts what we have initiated last year. Of course, we had some price increase on our existing API and we also had new product launches in the first quarter. As well as we had mentioned we had rationalized some of our operating expenses, rather than just looking at a price increase as one of the pivots of margin expansion.

Gaurav Maheshwari: So, what you're saying is it's not at the gross level and it is primarily driven at the OPEX level, right?

Hariharan S.: OPEX and the product level cost improvement projects.

Gaurav Maheshwari: But that's what I'm saying at the cost level at the gross level it's all counterintuitive because Ibuprofen prices have gone up, Acetyl acid prices have gone up, ideally your margins of Ibuprofen wouldn't have gone up to the extent it would have for an integrated player in fact it would have corrected. Chinese dependency again your margin should have corrected, so that's why I'm trying to understand is there a one-off or are we saying that there is no one-off to these numbers?

Hariharan S.: We expect that net EBITDA percentage to be in the mid-teens.

Jitesh Devendra: So, if you are asking if it's one-off, it is a sustainable one because you are right majority of it has come from the OPEX.

Gaurav Maheshwari: I have seen the DMF files for last multiple years and last five years approximately the Solara whatever is there on DMF filings is three filings, four filings or backs two filings also. So, could you give us some sense because now you have spent 34 crores acquiring this R&D lab I don't know what is the Sovizen acquisition price that you would have paid, how many filings can we expect on a DMF front every year?

Jitesh Devendra: 10 DMF.

Gaurav Maheshwari: And what is the total spent on the Sovizen, the acquisition that you have done?

Hariharan S.: 40 to 43 crores is the cost we have incurred for this constructing a new site which Jitesh has indicated that this site shall be used for CRAMS business model. That's like an international standard site we have created.

Gaurav Maheshwari: If you see the point #4 of your result table the notes to account, it says 35 crores is what you have paid for the Strides' API research centre above that there is a statement saying acquisition of R&D business from Sovizen Lifesciences Private Limited with effect from Feb 1st, so how much you have paid for that?

Hariharan S.: Rs.42 crores is the acquisition of R&D site from Sovizen Life Sciences.

Gaurav Maheshwari: 42 is for that amount, right?

Jitesh Devendra: Yes.

Gaurav Maheshwari: 42 is for Sovizen?

Jitesh Devendra: Yes.

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

Jitesh Devendra: Thank everyone for participating in our first earnings call. Very much appreciate your time spent with us and we look forward to our future calls too. Thank you.

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