

Solara Active Pharma Sciences

NOT RATED

Work in progress

We recently met the management of Solara and the company is on track to expand its API and CRAMS presence over the next three years. Long-lasting contracts in high-volume APIs will provide a solid base while high-value low-volume APIs and scale-up in the CRAMS business will drive both top-line growth and profitability. We believe a 15% CAGR in top-line and 20% CAGR in EBITDA looks achievable. The recent fundraising of Rs 4.6bn will be utilized in developing capabilities in both these segments.

- Fundraise of Rs 4.6bn:** In Feb-2019, Solara announced a fundraise of Rs 4.6bn through warrants given to promoters and PE investor TPG. The company has already received 25% of total commitment while the remaining fund is likely to come in FY20E. A large portion of this fund will be used to acquire capabilities in CRAMS and in setting up a Rs 2bn Greenfield API plant in Vizag. The co has already started working on the plant with an initial investment of Rs 700mn. The revenue generation is likely to start in 2HFY21. Residual funds will be used to pare down debt.
- CRAMS to improve business mix:** As of now, Solara has only 5% of its revenue coming in from CRAMS orders. The management is looking to scale up its presence in CRAMS. It already has two R&D units in India while it is building its leadership team in the US. The potential acquisition in the US is likely to be in the form of kilo lab facilities having certain technological capabilities. Since the margins in the CRAMS segment are upwards of 30%, the management is targeting 20%+ EBITDA margin for Solara over the next few years.

- Clean regulatory slate:** The company has 4 API and one intermediate unit in India. It has not faced any enforcement action from the USFDA for its plants so far. The recently inspected Ambernath and Cuddalore plants received zero 483s. Puducherry and Mangalore plants were inspected in 2017 and 2016 respectively, both the inspections were clear.
- New product filings remain high:** Solara filed 9 DMFs in FY19 and is likely to file 10 more in FY20. The focus on new product launches remains high. Some of the interesting DMF filings include Posaconazole, Patiromer, and Pregabalin. The company is committed to spending Rs 500-600mn on R&D per year.
- View & valuations:** With 16/21/30% Sales/EBITDA/EPS CAGR and improved Adj. Net Debt/Equity ratio of 0.8x (v/s 1.4x in FY18), we believe the stock is trading at attractive valuations of 16/10x on FY20/21E P/E. However, the developing Ranitidine story related to NDMA impurities could be an overhang in the near term. If Solara successfully clears the impurity hurdles, it could turn out to be a big bonanza; else, sizable Ranitidine sales could be at risk. We assign a fair value of Rs 655 (15x FY21E EPS).

Financial Summary (Consolidated)

(Rs mn)	FY18	FY19	FY20E	FY21E
Net Sales	5,210	13,867	16,079	18,559
EBIDTA	625	2,208	2,633	3,207
APAT	60	671	961	1,539
Adj. EPS (Rs)	2.4	26.0	27.3	43.7
Adj. P/E (x)	182.6	17.0	16.2	10.1
Adj. RoE (%)	2.9	13.4	12.0	14.4
Adj. Net D/E (x)	1.4	0.8	0.2	0.2

Source: Company, HDFC sec Inst Research

INDUSTRY	PHARMA
CMP (as on 18 Sep 2019)	Rs 442
Fair Value	Rs 655
Nifty	10,841
Sensex	36,564
KEY STOCK DATA	
Bloomberg	SOLARA IN
No. of Shares (mn)	26
MCap (Rs bn) / (\$ mn)	11/160
6m avg traded value (Rs mn)	24
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 492/255
	3M 6M 12M
Absolute (%)	(0.5) 0.0 47.7
Relative (%)	5.9 4.1 49.7
SHAREHOLDING PATTERN (%)	
	Mar-19 Jun-19
Promoters	40.55 40.55
FIs & Local MFs	7.10 6.88
FPIs	17.36 14.90
Public & Others	34.99 37.67
Pledged Shares*	2.78 2.78

Source : BSE; * % of total

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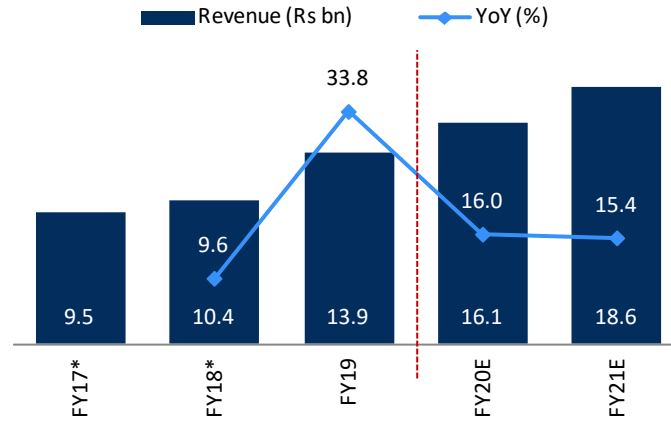
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Revenue growth will be aided by stable contracts for base molecules, and a scale up in niche APIs and the CRAMS segment

The management aims to maintain gross margin over 50%

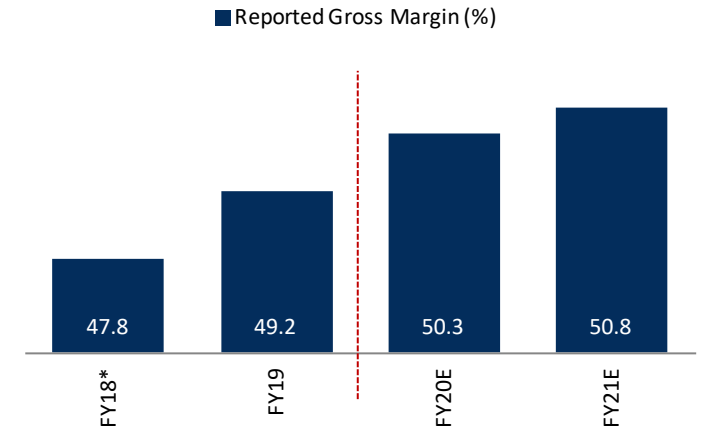
Strong operating performance will drive a ~140bps expansion in EBITDA margin and 51% PAT CAGR over FY19-21E

We Estimate ~16% Revenue CAGR Over FY19-21E



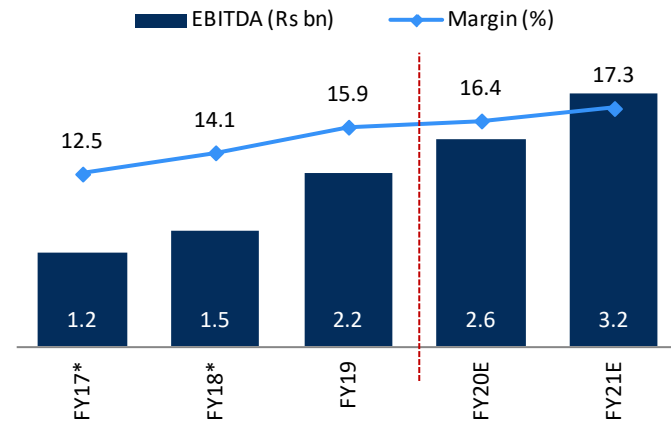
Source: Company, HDFC sec Inst Research; *Proforma

Better Mix Will Support Gross Margin Improvement



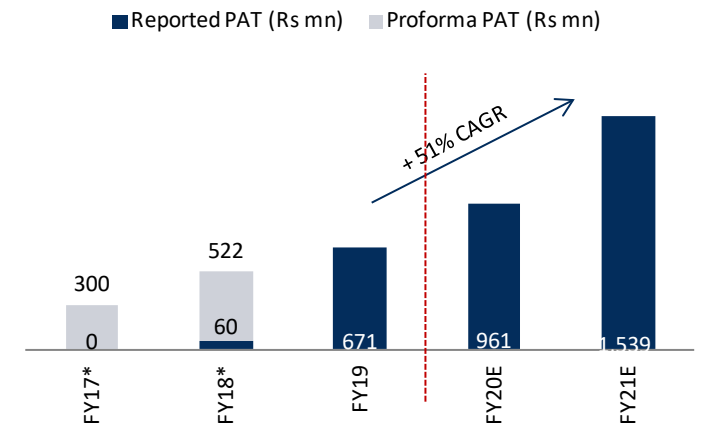
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Operating Leverage Will Drive Margin Expansion



Source: Company, HDFC sec Inst Research; *Proforma

Superior Operating Performance Will Boost Pat



Source: Company, HDFC sec Inst Research; *Proforma

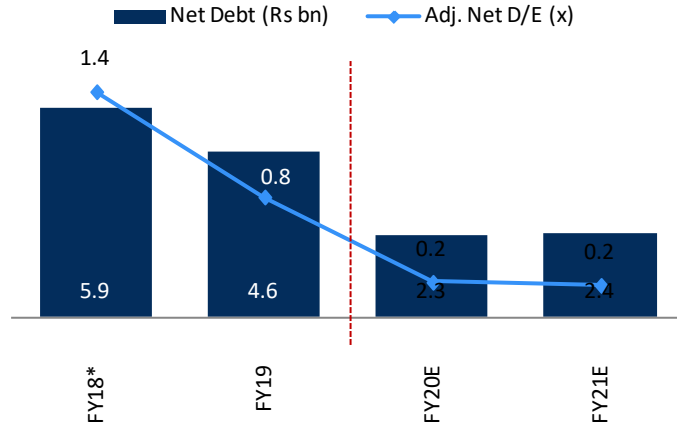
The fundraising activity is expected to complete by FY20E

Robust operating performance will improve FCFs

Return ratios will be suppressed in FY20E owing to the completion of the fundraise activity

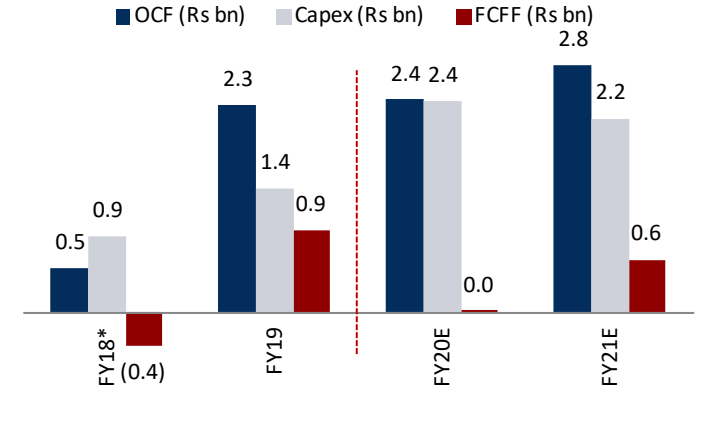
Existing facilities (ex Ambernath) are at optimal utilization levels

Fundraise Will Enable Debt Reduction



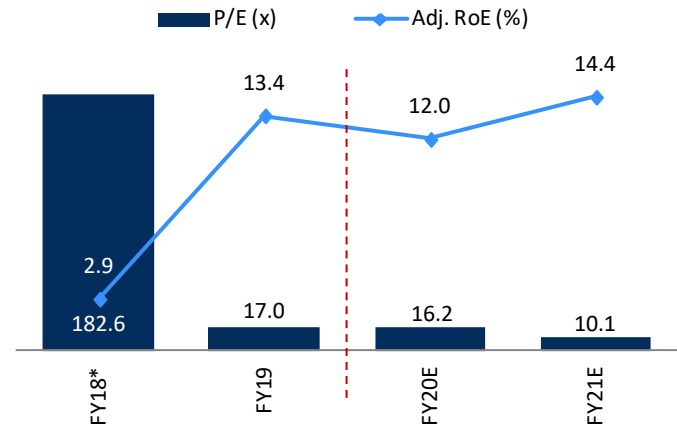
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FCF To Improve With Operating Performance



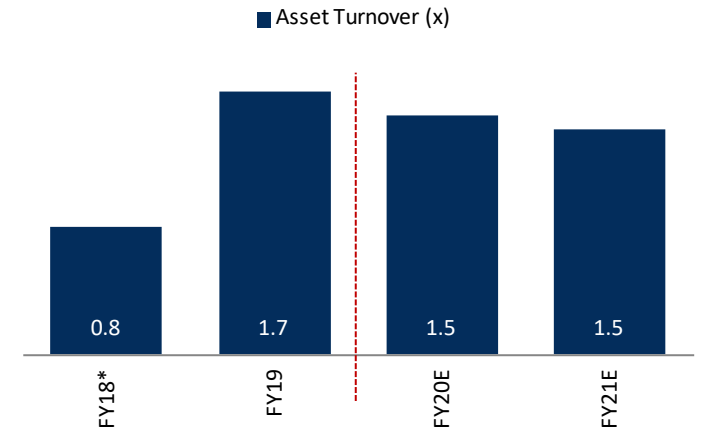
Source: Company, HDFC sec Inst Research; *Proforma

Healthy Uptick In Return Ratios



Source: Company, HDFC sec Inst Research; *Proforma

Asset Turnover To Be Maintained At Healthy Levels



Source: Company, HDFC sec Inst Research; *Proforma

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Peer Set Comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP/FV	Adj EPS (Rs/sh)				P/E (x)				RoE (%)			
					FY18	FY19	FY20E	FY20E	FY18	FY19	FY20E	FY20E	FY18	FY19	FY20E	FY20E
Sun Pharma	1,000	417	BUY	545	12.7	14.9	18.7	24.7	32.8	28.0	22.3	16.9	8.2	9.0	10.4	12.4
Dr Reddy's Labs	456	2,744	BUY	3,360	59.2	104.9	128.4	148.8	46.4	26.2	21.4	18.4	7.8	13.1	14.3	14.5
Divi's Labs	429	1,616	SELL	1,320	32.4	48.8	51.5	60.1	49.9	33.1	31.4	26.9	15.2	20.1	18.7	19.4
Cipla	370	459	NEU	565	18.5	19.0	19.1	25.8	24.8	24.1	24.1	17.8	11.2	10.5	9.7	11.9
Aurobindo Pharma	363	619	BUY	835	41.7	42.9	50.9	55.6	14.8	14.4	12.1	11.1	23.2	19.7	19.5	17.8
Lupin	344	759	NEU	760	38.1	16.4	23.6	34.3	19.9	46.2	32.1	22.1	12.8	5.4	7.6	10.3
Torrent Pharma	283	1,671	NEU	1,615	37.0	40.1	52.5	67.3	45.2	41.6	31.8	24.8	14.0	14.5	17.6	19.5
Cadila Healthcare	247	241	BUY	265	13.0	11.6	11.5	14.6	18.5	20.8	20.9	16.5	17.0	12.4	10.8	12.4
Alkem Laboratories	227	1,896	BUY	2,180	57.0	63.6	77.4	99.6	33.3	29.8	24.5	19.0	14.6	14.8	16.0	18.2
Abbott India	211	9,942	NR	8,990	188.8	211.9	248.6	299.6	52.7	46.9	40.0	33.2	26.1	24.3	24.1	24.5
Glenmark	102	363	BUY	500	17.5	27.4	24.9	31.3	20.8	13.3	14.5	11.6	9.4	13.3	11.1	12.6
Alembic Pharma	98	521	NEU	570	21.9	25.8	25.1	31.6	23.8	20.2	20.7	16.5	20.0	19.7	16.4	18.1
Jubilant Life Sciences	83	522	BUY	845	45.5	53.8	54.1	67.2	11.5	9.7	9.6	7.8	19.3	19.3	16.6	17.7
Laurus Labs	37	348	BUY	470	15.8	10.7	15.0	26.0	22.0	32.5	23.2	13.4	11.9	6.2	9.6	15.1
Suven Life Sciences	36	280	NR	455	9.7	6.8	9.1	10.7	28.8	41.0	30.8	26.1	17.2	10.9	13.2	13.9
Strides Pharma	33	366	BUY	650	13.2	6.9	30.4	41.5	27.8	53.3	12.1	8.8	2.9	2.3	9.9	12.3
J B Chemicals & Pharmaceuticals	31	391	NR	485	16.6	24.1	28.9	34.7	23.6	16.2	13.6	11.3	9.9	13.3	14.7	15.6
Dishman Carbogen Amcis	28	176	BUY	355	13.2	16.7	18.0	23.3	13.3	10.5	9.8	7.5	14.6	15.4	13.9	15.6
Granules India	27	107	BUY	170	5.2	9.3	11.4	13.9	20.5	11.5	9.4	7.7	12.0	16.7	17.5	18.5
Solara Active Pharma Science	11	442	NR	655	2.4	26.0	27.3	43.7	182.6	17.0	16.2	10.1	1.6	7.8	8.3	10.8
Neuland Labs	7	507	BUY	725	10.8	12.8	33.4	51.7	46.9	39.6	15.2	9.8	2.2	2.6	6.0	8.6

Source: HDFC sec Inst Research

Income Statement (Consolidated)

Year Ending March (Rs mn)	FY18	FY19	FY20E	FY21E
Net Revenues	5,210	13,867	16,079	18,559
Growth (%)		166.2	16.0	15.4
Material Expenses	2,718	7,048	7,991	9,131
Employee Expenses	685	1,858	2,187	2,505
Other Operating Expenses	1,181	2,752	3,268	3,717
EBITDA	625	2,208	2,633	3,207
EBITDA Margin (%)	12.0	15.9	16.4	17.3
EBITDA Growth (%)		253.3	19.2	21.8
Depreciation	340	831	926	1,128
EBIT	285	1,377	1,707	2,079
Other Income (Including EO Items)	25	124	45	45
Interest	251	824	781	504
PBT	58	677	971	1,620
Tax (Incl Deferred)	(1)	6	10	81
RPAT	60	671	961	1,539
Minority Interest	0	0	0	0
APAT	60	671	961	1,539
APAT Growth (%)		1,024.0	43.2	60.1
Adjusted EPS (Rs)	2.4	26.0	27.3	43.7
EPS Growth (%)		976.0	4.9	60.0

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year Ending March (Rs mn)	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS				
Share Capital - Equity	247	258	352	352
Reserves	7,393	9,301	13,227	14,553
Total Shareholders Funds	7,640	9,559	13,579	14,904
Minority Interest	45	44	45	45
Long Term Debt	2,429	2,250	1,250	1,225
Short Term Debt	3,900	3,128	3,138	3,148
Total Debt	6,329	5,378	4,388	4,373
Net Deferred Taxes	484	328	328	328
Long Term Provisions & Others	238	865	964	1,049
TOTAL SOURCES OF FUNDS	14,735	16,173	19,303	20,699
APPLICATION OF FUNDS				
Net Block	6,041	7,204	8,528	9,650
CWIP	995	536	650	575
Goodwill & Intangibles	4,593	4,615	4,615	4,615
Investments	233	299	299	299
LT Loans & Advances	274	401	525	575
Total Non-current Assets	12,136	13,054	14,616	15,714
Inventories	1,877	2,204	2,518	2,877
Debtors	2,625	2,888	3,436	4,068
Other Current Assets	1,106	689	799	922
Cash & Equivalents	470	765	2,115	2,022
Total Current Assets	6,078	6,546	8,867	9,888
Creditors	3,129	2,444	3,065	3,627
Other Current Liabilities & Provns	351	983	1,116	1,276
Total Current Liabilities	3,479	3,427	4,181	4,903
Net Current Assets	2,599	3,119	4,686	4,985
TOTAL APPLICATION OF FUNDS	14,735	16,173	19,303	20,699

Source: Company, HDFC sec Inst Research

Cash Flow

Year Ending March (Rs mn)	FY18	FY19	FY20E	FY21E
Reported PBT	2	677	971	1,619
Non-operating & EO items	31	(124)	(45)	(45)
Interest expenses	229	824	781	504
Depreciation	367	831	926	1,128
Working Capital Change	(108)	274	(243)	(356)
Tax Paid	(29)	(162)	(10)	(81)
OPERATING CASH FLOW (a)	492	2,320	2,380	2,769
Capex	(856)	(1,393)	(2,364)	(2,175)
Free cash flow (FCF)	(364)	928	16	594
Investments	-	(65)	-	-
Non-operating Income	2	124	45	45
INVESTING CASH FLOW (b)	(855)	(1,334)	(2,319)	(2,130)
Debt Issuance/(Repaid)	898	(951)	(990)	(15)
Interest Expenses	(220)	(824)	(781)	(504)
FCFE	315	(789)	(1,710)	120
Share Capital Issuance	0	1,480	3,120	-
Dividend	-	-	(155)	(213)
Others	145	(397)	95	-
FINANCING CASH FLOW (c)	822	(692)	1,289	(732)
NET CASH FLOW (a+b+c)	460	294	1,350	(93)

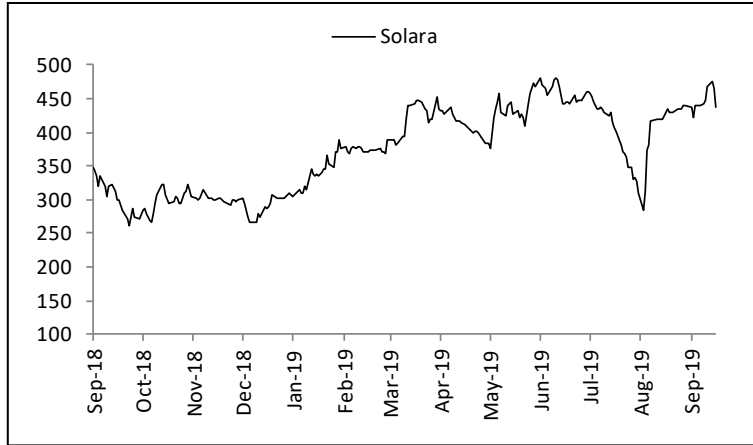
Source: Company, HDFC sec Inst Research

Key Ratios

	FY18	FY19E	FY20E	FY21E
PROFITABILITY (%)				
GPM	47.8	49.2	50.3	50.8
EBITDA Margin	12.0	15.9	16.4	17.3
APAT Margin	1.1	4.8	6.0	8.3
RoE	1.6	7.8	8.3	10.8
Adj. RoE	2.9	13.4	12.0	14.4
Adj. RoIC (or Core RoCE)	5.7	12.8	14.3	15.4
Adj. RoCE	5.7	12.5	12.3	12.4
EFFICIENCY				
Tax Rate (%)	(2.4)	0.9	1.0	5.0
Fixed Asset Turnover (x)	0.8	1.7	1.5	1.5
Inventory (days)	131.5	58.0	57.2	56.6
Debtors (days)	183.9	76.0	78.0	80.0
Other Current Assets (days)	77.5	18.1	18.1	18.1
Payables (days)	219.2	64.3	69.6	71.3
Other Current Liab & Provns (days)	24.6	25.9	25.3	25.1
Cash Conversion Cycle (days)	149.1	62.0	58.4	58.3
Debt/EBITDA (x)	10.1	2.4	1.7	1.4
Net D/E (x)	0.8	0.5	0.2	0.2
Adj. Net D/E (x)	1.4	0.8	0.2	0.2
Interest Coverage (x)	1.1	1.7	2.2	4.1
PER SHARE DATA (Rs)				
EPS	2.4	26.0	27.3	43.7
Dividend	-	5.0	5.0	5.0
Book Value	309.7	370.9	386.1	423.7
VALUATION				
P/E (x)	182.6	17.0	16.2	10.1
P/BV (x)	1.4	1.2	1.1	1.0
EV/EBITDA (x)	26.8	7.2	6.8	5.6
EV/Revenues (x)	3.2	1.2	1.1	1.0
OCF/EV (%)	2.9	14.5	13.4	15.5
FCF/EV (%)	(2.2)	5.8	0.1	3.3
FCFE/Mkt Cap (%)	2.9	(6.9)	(11.0)	0.8
Dividend Yield (%)	-	1.1	1.1	1.1

Source: Company, HDFC sec Inst Research

1YR PRICE PERFORMANCE



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- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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