

Solara Active Pharma Sciences

CMP : ₹608.05

Target price: ₹920

HP* : Upto 3 years

Our Vriddhi pick for the month of February is Solara Active Pharma Sciences Limited. The company was formed by combining the demerged API business of Strides Pharma Science Limited (formerly known as Strides Shasun Limited) and the human API business of Sequent Scientific Limited into a separate entity. Solara manufactures and develops API across niche therapeutic categories with proven capabilities in complex products such as APIs based on polymers and APIs for injectables. It also provides Contract Research and Manufacturing Services (CRAMS) for APIs, including analytical services, impurity synthesis.

Strong base in International market

The company's revenue mix in terms of geography, includes USA-37 per cent, EU-29 per cent, South East Asia-18 per cent, WHO-8 per cent, Japan-6 per cent and others-6 per cent. North America, European Union and Japan continue to be the company's key markets, with a focus also emerging on China and Eastern Europe. It has a large customer base in US, where it serves both generics, innovator companies and supply commercial APIs as well as consists of contracts for the contract research and manufacturing. In other key markets (Europe, US and Japan), the company has partnerships with key generics players that enables it to launch new products. In FY19, the company broadened the access of 15 of its existing products to eight new markets which included China, Russia, Philippines, Malaysia, Ukraine, South Africa and others. All the manufacturing sites of the company are Zero Liquid Discharge (ZLD), which will benefit it to make its base stronger in Chinese market.

Product portfolio and new launches

Solara is one of the world's largest manufacturers of Ibuprofen, Praziquantel, Gabapentin, Nizatidine, Ranitidine and Sevelamer Carbonate. The company's commercial portfolio includes diverse categories like antimalarial, anxiolytic, anticonvulsant, anthelmintic, antifungal, antihyperlipidemic, chronic kidney disease, hyperkalaemia, folate analogue, Nonsteroidal Anti-Inflammatory Drugs (NSAIDs) and neuromuscular. It has the R&D expertise to file 10 DMFs every financial year. At present, it has filed for more than 140 DMFs all over the world. During 9MFY20, it has filed two DMFs in US market. In FY19, it filed 11 patents for its 11 new products. Also, in 2019, the company had two USFDA inspections at its Cuddalore and Ambarnath facilities with no observations.

Developing and introducing new product molecules is one of the biggest strength of the company. The new products launched in FY19 contributed towards six per cent of its overall sales in the year. Also, in FY19, it launched a list of New Chemical Entity (NCE) molecules under the development as well as quick-to-launch and Phase-III molecules under

*HP : Holding Period

Company Details

Industry	Pharmaceuticals & Drugs
Chairman	Deepak Vaidya
Managing Director	Jitesh Devendra
Company Secretary	S Murali Krishna
ISIN	INE624Z01016
Bloomberg Code	SOLARA IN
BSE Code	541540

Key Market Indicators (Consolidated)

Latest Date	14-Feb-2020
Latest Price (Rs)	608.05
Previous Close (Rs)	567.15
1 Day Price Var%	-0.58
1 Year Price Var%	42.50
52 Week High (Rs)	560.00
52 Week Low (Rs)	275.10
Beta	0.35
Face Value (Rs)	10.00
Industry PE	24.68
Industry PBV	3.14
TTM Period	201912
TTM EPS(Rs)	47.25
TTM CEPS(Rs)	83.11
Price/TTM CEPS(x)	6.47
TTM PE (x)	11.38
Price/BV(x)	1.34
EV/TTM EBIDTA(x)	6.29
EV/TTM Sales(x)	1.32
Dividend Yield%	0.93
MCap/TTM Sales(x)	0.99
Latest Book Value (Rs)	401.16
Market Cap (Rs. In Crores)	1401.38
EV (Rs. In Crores)	1862.97
Latest no. of shares (In Crores)	2.61

Share Holding Pattern as on 201912

Promoter No of shares (In Crores)	1.05
Promoter %	40.14
FII No of Shares (In Crores)	0.43
FII %	16.43
Total No of Shares (In Crores)	2.60
Free Float %	59.86

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review. Currently, it has 25+ products in the development pipeline spread over niche therapy segments such as anthelmintic, beta blockers, muscle relaxants, hyperkalaemia, neuromuscular, anti-Parkinson, anti-diabetic and ophthalmic, among others.

Investment by TPG Growth

With US\$ 13.5 billion of Assets under Management (AUM) TPG Growth, which is the growth capital arm of US-based private equity giant TPG, infused US\$ 30 million in Solara Active Pharma. This marked TPG Growth's foray into India's life sciences sector. TPG, one of the world's largest healthcare investors, with more than \$13 billion in equity capital invested across the sector in India, has backed Healthium MedTech, Asiri Hospitals, Manipal Hospitals, CTSI and Rhea Healthcare. The investment from TPG has given a strong backing to Solara Active, supporting its growth initiatives as it expands capacity in the regulated markets.

Setup of New Drug Facility

Andhra Pradesh Industrial Infrastructure Corporation (APIIC) had allotted land to Solara Active Pharma Sciences to build a drug manufacturing unit in Visakhapatnam (Andhra Pradesh). With an expected investment outlay of Rs 736 crore, the unit spreads across 68,799 sq. mt. of land. The project will be implemented in two phases. The installation is expected to get over by April 2020 followed by a validation process. So, the revenue from Visakhapatnam plant is expected to be generated from H2FY21. This facility will be a multipurpose plant dedicated towards handling different volumes and expanding its growth horizon further.

Financial Performance

Solara Active Pharma's consolidated revenue for the quarter Q3FY20 came in at Rs 343.68 crore, as against Rs 356.23 crore, in the corresponding quarter last year, registering 3.5 per cent YoY decline. EBITDA for the quarter grew by 25.3 per cent YoY to Rs 77.66 crore, as against Rs 61.97 crore in the corresponding quarter last year, with a corresponding margin expansion of 520 bps. EBITDA margin for the quarter stood at 22.6 per cent. PAT for the quarter came in at Rs 41.33 crore as against Rs 22.1 crore in the corresponding quarter last year, with YoY increase of 87 per cent.

Looking at nine-month numbers i.e. for 9MFY20, the revenue jumped by two per cent YoY to Rs 1,024.98 crore while, EBITDA grew by 34 per cent YoY to Rs 209.36 crore. Further, the company reported a net profit of Rs 96.71 crore, up 191 per cent YoY.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201903	201803	
Net Sales	1408.58	560.41	
Total Income	1420.96	562.88	
Total Expenditure	1197.67	501.04	
PBITD	223.29	61.83	
PAT	59.42	0.34	
Dividend %	50.00		
Adj. EPS(Rs)	23.10	0.15	



In FY19, the access of 15 existing products was broadened across 8 new countries



It filed 11 patents for its 11 new products in FY19



TPG Growth infused US\$ 30 million in the company

Quarter On Quarter (Consolidated) (Rs in Crore)					
Particulars	201912	201909	Q on Q Var%	201812	Y on Y Var%
Net Sales	343.68	351.13	-2.12	356.23	-3.52
Total Expenditure	266.02	283.11	-6.04	294.26	-9.60
PBIDT (Excl OI)	77.66	68.02	14.17	61.97	25.32
PAT	41.33	28.88	43.11	22.10	87.01
PBIDTM% (Excl OI)	22.60	19.37	16.68	17.40	29.89
PBIDTM%	24.37	20.78	17.28	18.49	31.80
PATM%	12.03	8.22	46.35	6.20	94.03
Adj. EPS(Rs)	15.88	11.22	41.53	8.95	77.43

Valuation

The company is trading at TTM P/E of 11.4x with TTM EPS of Rs 47.25. It is a pure API player having a strong product portfolio with an increased focus on CRAMS segment. Its presence in the international market is getting stronger with a foray into other countries like China, Russia etc. Its R&D is its one of the biggest strengths, enabling it to launch new products and further strengthen the product portfolio. The investment by TPG Growth has given the company a huge support to carry out its expansion plans. Also, with the commercialisation of the new Visakhapatnam facility, the top line will get a boost from H2FY21. Considering its stellar financial performance and attractive valuation, we see a potential upside of 51 per cent, with a target price of Rs 920 for a period of three years. We urge our investors to make the investment in the scrip in three tranches.

About the Company

Solara Active Pharma Sciences Limited got listed on BSE & NSE in June 2018. The company has two R&D centres in Bengaluru and Chennai and four API manufacturing facilities in Puducherry, Cuddalore, Mangalore and Mysore with a capacity of over 1,600 kilo litres. The company has a legacy of over three decades and traces its origins to the API expertise of Strides Shasun Ltd and the technical know-how of human API business from Sequent Scientific Limited.



Vizag plant is expected to generate revenue from H2FY21



Company is planning to focus more on CRAMS segment