



# “SeQuent Scientific Ltd Q3 FY21 Earnings Call”

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**Moderator:** Good morning, ladies, and gentlemen. Welcome to SeQuent Scientific Limited Q3 FY'21 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:** Thanks, Lisan. A very good morning and thank you for joining us today for SeQuent Scientific's Earnings Conference Call for the Third Quarter and Nine Months ended Financial Year 2021.

Today, we have with us Manish Gupta - SeQuent's Managing Director; Sharat Narasapur - Joint Managing Director; and Tushar Mistry - CFO to share the Highlights of the Business and Financials for the Quarter.

I hope you've gone through our "Results Release" and the "Quarterly Investor Presentation", which have been uploaded on our website as well as stock exchange websites. The transcript for this call will be available in a week's time on our 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 Manish to make the Opening Comments.

**Manish Gupta:** Good morning friends. A warm welcome to all of you for the Q3 FY 21 earnings call. I do hope all of you are keeping safe and sound and doing the right things.

Joining me on the call today, I have with me Sharat Narasapur, Joint MD and Tushar Mistry, CFO. I am sure all of you are in receipt of the earnings release and the investor deck which has been uploaded in the stock exchanges websites as well as our website.

Quarter 2 saw a new chapter in the history of SeQuent where there was a seamless transition to the Carlyle group as the new promoter and broad-basing of the board with the addition of global industry stalwarts. The Board was strengthened with the induction of Dr. Fabian Kauchke, a R&D veteran in the global animal health landscape during the current quarter.

We also appointed Consultants to help us rationalise costs and chart the next growth strategy. While there were a host of initiatives being undertaken to move the Company into the next orbit, what remains constant amidst all is the singular focus on execution.

Quarter 3 is yet another quarter of consistent performance with the revenue growing 15.2% on a constant currency basis. The growth was driven by both the API and Formulations segment that grew 20% and 13% respectively. This performance is again a strong validation of our unique business model as well as the industry we straddle.

This growth in formulations was despite a strong headwind of an operationally challenging environment in Europe due to the second wave of Covid. Dwelling deeper into the individual geographies, the key drivers for this quarter was LATAM, Turkey and India. LATAM grew 87% while Turkey grew 18%. Market share gain in existing portfolio of products and new launches were the key drivers of the growth here.

India has now emerged as an important market for us, and is our key market after Spain, Turkey and Brazil. Our business in India has more than doubled in the last nine months, as we integrated the Zoetis portfolio in our product offering.

Within Europe, we were impacted in Spain and Germany even as we did well in Benelux and Sweden. However, on the nine-month basis, our Europe business grew 2.7%, slightly ahead of the industry growth rate. We expect our European growth to accelerate hereupon, as we gain traction in our recent launches Citramox LA & Halofusol. Tulathromycin launch would also start reflecting from the current quarter.

We continue to stay cautious in Emerging markets and stay focused only on the secured payment business in the region.

As we have been guiding, API business continue to drive our overall growth and we delivered highest quarterly sales of approximately Rs. 130CrS reflecting a 20% growth over the corresponding quarter, on the back of our deepening association with leading global animal health companies.

We have completed the de-bottlenecking project at Mahad to enhance Albendazole capacities and should be operationalising the first phase of Vizag expansion in the current quarter, both of which will help us maintain the growth momentum in FY22.

We continue to make progress in our new product development across both APIs and formulations and the recent CEP approval of Diclazuril makes us a formidable holder of IPs for both US and EU markets.

The quarter was also significant for our Turkish operations as we consolidated our ownership and transitioned to the new management team even as we maintained the growth momentum.

The quarter also saw us restructuring our balance sheet with the repayment of most of debts in India, benefits of which shall start reflecting from Q4.

Financially, we have improved across all key parameters; with EBITDA margins @ 18%+, PAT margins tending into double digits, continued debt reduction driving strong balance sheet ratios as well as ROCE now breaching 20%.

In the last call, we had appraised you on the appointment of Stonehaven Consulting to help us formulate our growth strategy for the next phase. Recently, we also hired PwC to help us strategize operations for efficiency and cost.

I am happy to state that both the projects are moving in the right direction and should be completed by end of Q4. We are enthused by their feedback on the strength of our business model as well as some of the additional growth engines that are being identified which shall have a meaningful impact on Sequent over the next few years.

It is a matter of pride for us that we were recently recognised for the second consecutive year by IHS Markit Animal Pharma News as the Best Company in India/Middle East/Africa for 2020, a strong testimony of our consistent out-performance since becoming a pure-play animal health company.

All-in-all, we stay wedded to our culture of strong execution and while being cautious, stay confident of our road-map and deliverables for the rest of the year as well as the medium term.

I would now like to hand over the call to Tushar who will run you through the detailed financials.  
Tushar – over to you...

**Tushar Mistry:**

Thank you Manish and I wish everyone a very Happy New Year.

While Manish has given you insights on the Global business performances, let me provide some insights into the other financial aspects for the quarter. In the current quarter i.e. Q3FY21 with the revenue growth of 13% we saw EBITDA growth of 34% which represents ~290 bps improvement over last year same quarter. On a YTD basis we saw revenue growth of 15.5% with EBITDA growth of 42% representing ~325 bps improvement over last year. Our Profit After Tax has grown 83% for Q3FY21 to Rs. 372m and 66% for 9MFY21 to Rs. 878m.

Our performance for the current quarter includes certain one-time expenses amounting to ~Rs.38m, largely towards consultancy costs for strategic assignments as mentioned by Manish. These costs shall continue in the current quarter as well.

Further, as you all are aware, the export incentive scheme (MEIS) has been withdrawn and a new scheme (RODTEP) is under implementation. We saw some impact of this change in the current quarter, which shall continue till the new scheme is rolled out.

Finally, we also undertook significant restructuring of our balance sheet and repaid all our term debts in India. While the current quarter saw only a marginal reduction in finance cost as we recorded some prepayment related costs, we expect our interest cost to less than halve from Q4.

Our cashflow generation remains robust and has resulted in further reduction of net debt which now stands at 0.6 to EBITDA. With such momentum in our cashflows, we expect to be net debt free within next 15-18 months.

We stay extremely focused on the productivity of our capital employed and are happy to see the ROCEs progress from 7.8% in FY18 to over 21% in the current year.

Structurally, we are managing risk by ensuring that all debts in respective countries are either local currency debts or are naturally hedged with their cashflows, thereby reducing the impact of uncertainties on the P&L.

As informed during our earlier call, our Effective Tax Rate stay higher than the earlier guidance given the delays in assessments in certain geographies due to Covid situation. This should normalise once the situation stabilises.

During the quarter we consolidated our holdings in our Turkish & Netherlands subsidiaries by acquiring the residual minority stakes. We hope to continue on this consolidation exercise for the remaining businesses with minority interests.

With growth in business, we are mindful of increasing needs for working capital requirements and we continuously monitor the same to ensure optimum utilisation of capital. We have been able to drive growth without any increase in working capital, leading to an effective reduction in working capital days.

On the operations front, we have now extended our SAP systems to our Spanish operations as well. With this, over 75% of our global operations are now under SAP. The other European operations shall be covered within next 6-12 months.

Overall, we stay well on track for meeting both the operational and financial objectives for the year.

With this we can now open the session for Q&A.

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Akash Jain from MoneyCurve. Please go ahead.

**Akash Jain:** I have two specific questions, Manish. One is on the margin side. So clearly, you had guided long-term guidance of improvement in margins year-on-year, but we seem to be doing better than that. Is it fair to assume that a bit of it is basically coming from a higher API mix and API is more profitable for us at the moment than formulations? The second question is on the Formulations side. Do you think the second lockdown impact on the business is more severe than what we saw in the first COVID wave in Europe? And in Turkey, specifically, you have done very well. But there has been a huge negative impact on currency on our numbers. So, is there a way to better manage currency risk as far as Turkey is concerned?

**Manish Gupta:** Thank you, Akash. And if you permit me to give a slightly longer answer, especially on the margin front. So if you look at our margins, we have been guiding to a margin improvement of 150 to 200 bps over a medium term. This is conceptually based on two aspects of our business.

One is that a typical pharmaceutical business requires front-loading of investments, and secondly, given we are in animal health, which is a branded generic industry, it is also a higher fixed cost business because of field force requirements. Clearly, both these aspects suppress margins in the early phase of business, but also facilitate margin expansion over time as you scale up. And this is what we have been alluding to when we have been guiding on those margin improvements. This year, we certainly have performed ahead of our margin improvement guidance, and this is coming from increasing scale of our business across three areas; one is API, then Turkey, which is an injectable business and finally Brazil. All three businesses are doing well and obviously driving the margin expansion. This has been further facilitated by the inflection point that we have reached in India. And you will see that 100%-odd growth that we have seen in India obviously makes our margins fairly attractive in this market as well. So all in all, clearly, this is not a flash in the pan. It is built around the way we have structured our business, and we do feel confident of margin expansion even going forward. The other way of looking at it is that Zoetis, who is the industry leader, commands an EBITDA margin of mid-30s, and we are currently at halfway level of that. So even if we were to consider Zoetis as an outlier, we still have a fair headroom for growth and have sufficient firepower in our business model to expand margins before we hit a plateau. Having said that, I do believe that going forward, our margin expansion should moderate, and I would probably guess 100 bps margin improvement from here on.

Your second question was in terms of impact of COVID especially the second wave. Clearly, the second wave is far more intense. I think acceptance of first wave was very easy in terms of lockdown, but the second wave of lockdown has been far more difficult. In Europe, we have manufacturing operations in Germany and Spain. While these operations are not really impacted, but there are always certain difficulties of operating because there are a lot of women who work who face difficulties when the schools are shut. So all in all, our manufacturing operations did suffer some slowdown. So clearly, we did see some impact of that in Q3 in Europe.

Your last question was on Turkey. Turkey in a way is a star performer in our business portfolio. It's a difficult market, which not many people can understand, but it has done very well for us. The currency has been swinging there. But if you would notice in the last three months, Turkey Government has taken significant corrective actions, including freeing up the interest rates. And therefore, you will see that Turkish currency now not only has stabilized but is strengthening against the US dollar. So I don't believe there should be any impact of currency depreciation going forward. Further, as Tushar alluded to in his commentary, structurally, we have also de-risked ourselves by having local borrowings rather than dollar borrowings in that geography.

**Moderator:** Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.

**Vishal Manchanda:** Sir, my question is, in your opening comments, you alluded to an API. I couldn't gather the name wherein you had some specific comments. Could you kind of reiterate what it was?

- Manish Gupta:** No, I didn't mention any specific API at all in my opening comments. We only talked of overall growth in our API business which has been growing faster than our overall growth with a 20% growth in the quarter.
- Vishal Manchanda:** Your capacities would have now been fully utilized and you have just pointed that there has been debottlenecking done. So how much should we expect that to add to the numbers?
- Manish Gupta:** So we have been generally guiding to around a 20% growth in our API business in the medium-term. And in pharma, you always need to plan your capacities ahead of the requirement. So we stay on track for delivering our guidance of around 20%-odd growth on the API side of business.
- Vishal Manchanda:** And sir, you have several APIs wherein you are the sole DMF filer. So, are these APIs commercialized? I think about five APIs is where you are the sole DMF. So how do we understand, whether these APIs are commercialized, and what could be the total addition that you could see from these APIs in your business over the medium-term?
- Manish Gupta:** So very few of those APIs have been commercialized in US as we speak, because, it's not only our API but even the formulator has to get an approval in US before they can commercialize our API. So it is still work-in progress. None of the APIs that we have in our portfolio are game changers per se because you do not have big products in animal health typically. But having said that, each of those products help us in delivering the outcomes that we have been alluding to. So this @20% growth that which we are talking about comes out of multiple products and multiple commercialisations. And what we like in our business model is we don't have the last over sixer hitters, we have more of Rahul Dravid's in our portfolio. So we are happy about it. And there are no game changers per se.
- Vishal Manchanda:** The growth that you guide in API business, would this be driven by new APIs that you commercialized or new customers, so kind of some colour on the growth that you expect in the API space, existing APIs would contribute to that, new APIs or new customers, basically, how is that going to deliver?
- Manish Gupta:** So I would split our entire growth into the three buckets, which you're referring to. All three will contribute. But the proportion is difficult to gauge, but it will be all driven by the three aspects which you mentioned -- More customers for existing APIs; new APIs commercialization; and of course, growth from our existing customers for existing APIs.
- Vishal Manchanda:** Sir, on this LATAM business, which was very strong during the quarter and even in the previous quarter it has shown good growth. So what has changed there because that has kind of been stagnant for a while and now it has picked up strong growth. Any color there?
- Manish Gupta:** We have been performing reasonably ahead of the industry in LATAM specifically in Brazil for a period of time. So even if you look at last three years' performance, LATAM has been a good performing business for us. Having said that, it has really picked up in the current year partly driven by our strategy of buying certain licenses and partly from the growth that market is seeing.

Anything new in Brazil take five years to register. So we have a different approach there of buying licenses rather than waiting for our own development to commercialize, and that's what is yielding results for us.

**Vishal Manchanda:** But you have your own pipeline of filings too because those will be higher margin products, the ones that you file on your own?

**Manish Gupta:** Certainly, the injectable portfolio that we are developing will be higher margin. But even when you buy in a license, we have a right to manufacture it ourselves. It's not in-licensed product, it is a bought-out IP. But yes, in our own developed products, injectables will have a better margin vis-à-vis the orals.

**Vishal Manchanda:** And you have started launching injectables in LATAM. Is that so?

**Manish Gupta:** Not yet. I told you that Brazil takes five years for registration. So there's no way it can happen so quickly.

**Vishal Manchanda:** But you would have a pool of filings there which are already done, and so every year, you would have your own approvals coming in?

**Manish Gupta:** Yes, in probably two years' time, we'll see our own approvals starting to show up. But till then also through a blend of IP acquisition and of course the overall industry growth, we are hoping to outperform the industry in LATAM.

**Vishal Manchanda:** There has been an outbreak of bird flu. So has that in any way impacted your business or will impact your poultry business?

**Manish Gupta:** Certainly, there will be some impact more in terms of collections rather than anything else. Having said that, I think that's one of our strengths of business model that we are not singularly dependent on any market or any particular animal. So yes, we are cautious about it as far as India poultry business is concerned. But will it make any impact on our guidance for the overall business? Answer is no.

**Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

**Bharat Sheth:** Manish, from a little mid-term perspective on the top line, earlier, we were guiding mid-teen kind of performance. Now with API expected to grow 20% in some of the formulations, for which we have got approval as well as geographically, so would you like to revise our mid-term guidance on the top line growth?

**Manish Gupta:** See, Bharat bhai, this industry grows between 3% and 5% across the world. So, we are very happy with the guidance that we have given. It is not an easy guidance to deliver over a period because there's always some pluses and minuses across the geographies that we are operating in.



So I don't think we are looking to revise guidance in the medium-term. We are expecting mid-teens revenue growth with API growing faster than our formulations business in the medium-term. There may be a couple of outlier quarters in this, but overall at annual level, you will see that kind of growth for us.

**Bharat Sheth:** This year, on EBITDA side, we have already reported for nine months a little more than 3%. So full year, the same kind of a guidance, do we expect? And then in mid-term again, we are now revising 1.5% to 1%. So does it factor because of the ESOP charges that we will be taking?

**Manish Gupta:** So first, yes, this year has been good for us. And as I mentioned in the previous question to Akash, that it is driven by a couple of reasons with our scaled up business in API, in Turkey and Brazil, and, of course, India reaching the inflection point for us. To that extent, therefore, we believe we need to moderate our margin expansion going forward which is why I said that FY'22 onwards, maybe instead of 150 to 200 bps, we should be looking at about 100 bps margin improvement. This does not include the charges that may come on account of ESOPs because that is not determinable at this point of time and will be a non-cash charge.

**Bharat Sheth:** I do appreciate it will be a non-cash charge, but whereas in P&L when EBITDA comes, so...

**Manish Gupta:** It will have its own impact, but what I'm referring to is our operating performance without considering the P&L impact of the ESOP.

**Bharat Sheth:** You said that after two consulting firms come back, then we'll give midterm kind of revenue goal \$500 million or kind. So anything would you like to share at this point of time or post Q4 only mid-term hitting a target of \$500 million?

**Manish Gupta:** I think middle of May would be a good time to meet up on that. So maybe either as part of our annual results or we will organize a separate investor meet once we have alignment with the Board on the new plan.

**Bharat Sheth:** Is it correct that even that will also include Carlyle growth perspective for our company because currently, we don't have a presence in the US and China?

**Manish Gupta:** Absolutely. That's why I mentioned, while we are working with consultants, eventually, we will be aligning it and taking the blessings of our Board before we come back.

**Moderator:** Thank you. The next question is from the line of Tushar Manudhane from Motilal Oswal Financial Services. Please go ahead.

**Tushar Manudhane:** Sir, just on the Emerging Markets business, while this has been a drag on the overall revenue growth, where do you see this getting stabilized, or maybe taking a reversal in terms of growth?

**Manish Gupta:** To be candid, I don't have an answer for that Tushar, because predicting global economies and the payment situations in various geographies is very difficult at this point of time. So rather

than trying to drive that business, till there is a stability there, I don't think we'll chase that market as much as we would like to. Having said that, I do believe that the worst is over. Crude oil is already going up, most of the economies are bouncing back. So I think the worst is behind us as far as emerging markets are concerned. And irrespective of the outcome in that market, I don't think it really plays out in our overall growth strategy.

**Tushar Manudhane:** Just on the gross margin front again, so basically what is it that is driving the gross margin? So how is the volume and the pricing scenario shaping up both year-on-year as well as quarter-on-quarter basis?

**Manish Gupta:** Tushar will have a better answer to it, but from a business angle, animal health does not see the price fluctuations that you see in human pharma, and we do not have that flexibility of changing prices if there is a shortage and all. Protein market around the world are reasonably stable under all environment. And therefore, none of our margin changes are driven for some price increases or anything. Of course, business mix has its impact. Tushar if you can elaborate on this?

**Tushar Mistry:** That's right. The margin for the quarter that you see is slightly higher than the trend, is more on account of business mix for the quarter. You should look at the nine months margin for more better understanding of what our margins are on a steady-state basis.

**Moderator:** Thank you. The next question is from Parin Gala from SageOne Investments. Please go ahead.

**Parin Gala:** We were talking about an acquisition in the United States. And I wanted to know if this is the consultant that's been hired to help us in that trajectory?

**Manish Gupta:** No. I don't think consultant has anything to do to help us to acquire a business in US, but they are kind of helping us identify what we should chase in the next phase of growth. US is one part of it. But the acquisition strategy will be more determined by the board and of course, the management team because we have to find the right target. Consultant cannot help on that.

**Parin Gala:** And have we found anything in that?

**Manish Gupta:** So we are always on a lookout. And as and when we are ready to announce, we shall come back.

**Parin Gala:** On the China strategy, do we have anything on that front? I know you wanted to expand our footprint in that market as well.

**Manish Gupta:** Yes, so that obviously will take some time to shape up because it's a new market for us, and we are relying on Carlyle expertise as far as that market is concerned. It's not a very easy market to understand. And in the current COVID environment, it makes it even more difficult. So I think that will take much longer to roll out.

**Parin Gala:** Would we say still about 12-months away from our US commercialization?

- Manish Gupta:** We are still between 15 to 18 months away from our US commercialization unless there is an acquisition. You have to bear in mind because of the current COVID situation, there are no plant inspections happening. And we currently do not have a formulations facility approved in the US.
- Moderator:** Thank you. The next question is from the line of Siddhant Bhandari from Highwest Global Management.
- Siddhant Bhandari:** So I just wanted to understand sort of the rationale behind moderating the margin expansion, I mean, if I look at this quarter, the incremental margin is close to 40%, and we've had a slowdown in formulations in Europe due to the COVID second wave. So I'm just trying to piece together why margin expansion should moderate next year. That one I didn't fully follow.
- Manish Gupta:** So Siddhant, in the past, we have been alluding to about a 150 to 200 bps margin improvement year-on-year over the medium-term. That was taking us to maybe early 20s kind of EBITDA margins by FY'24. Clearly, this year has been very good, and probably, we have expanded our margins at almost double the guided factor. So having said that, that was the sole reason for moderating that expectation. It's not that we want to not overachieve that, but we don't know yet. The prices have not changed per se for us to make any changes to our business plan or business model. So that's why we have moderated. There's no particular reason behind it. But when I'm talking of that, we have kept the end goal as the same. And since we have already covered a lot of distance, so therefore, the curve has to flatten a bit.
- Siddhant Bhandari:** So there's no change in your medium-term guidance, it's more you're saying that you want to leave some buffer and it can slow down in the next one or two years or you don't per se expect the four, five year target to change that much, right?
- Manish Gupta:** Partly correct.
- Siddhant Bhandari:** My second question is with respect to the Europe formulations business. Sort of what growth rate do we expect in a sort of normalized environment if you don't have a COVID lockdown or something of that sort?
- Manish Gupta:** Siddhant, see, fundamentally, Europe is the most competitive amongst all animal health markets around the world. But it is also the thought leader for the industry for animal health practices around the world. Internally, we leverage a lot from our European organization, both in terms of products and relationships that drive our growth in other markets as well as our R&D. Growth this year has been slower at 2.7%, but historically, we have been growing at compounded 6% to 7% in Europe over the last three years, almost twice the industry growth rate in that region. So I do believe that we should come back to our historical growth rates of 6% to 7% for the Q4 and also for the medium-term, some of which will be driven by our recent launches of Citramox LA and Halofusol, as also the commercialization of Tulathromycin that is happening as we speak.
- Moderator:** Thank you. The next question is from the line of Saket Mehrotra from Tusk Investment. Please go ahead.

- Saket Mehrotra:** Manish, can you throw some light on why the emerging markets growth has declined, I mean, is it specific to some particular country, or what is basically driving this decline that has happened?
- Manish Gupta:** This was spread over multiple countries, some African countries, Middle East, and certain Southeast Asian countries. There's no slowdown in business, but there is a slowdown on collection. And that is something which we are not very comfortable with, which is why we are only focused on secured payment business and not doing or undertaking any business that entails open credit. So that's the only reason for a slowdown of growth or even decline in revenues as far as that business is concerned.
- Saket Mehrotra:** In terms of the India growth rate that has happened, I think this quarter, we almost did 122%. What is the outlook specifically for the Indian market in terms of what could be like a growth rate that we can look at, was this like a one-off thing or do we expect this to continue?
- Manish Gupta:** So certainly, this year, we have also benefited taking over Zoetis portfolio in India, over and above our core growth rate. I would say, roughly half of this growth is coming from our own business and rest from the Zoetis portfolio that we took over. Having said that, we stay fairly positive for India business going forward. Difficult to allude to the growth rate. Certainly, it will not be the same rates going forward, but it will still be a fairly attractive growth rate for us as far as India is concerned.
- Moderator:** Thank you. The next question is from the line of Sanam Jain, a retail investor. Please go ahead.
- Sanam Jain:** I had a couple of questions that I wanted to ask. Number one would be, can you provide the revenue split between production and companion animals for Q3?
- Manish Gupta:** We do not provide this granular information. But I think broad information is available in the annual report, and that would not have changed for this quarter.
- Sanam Jain:** The other thing that was written in the investor presentation is that we are planning to prepay our INR-denominated term loans to the tune of Rs.125 crores. So I wanted to know the average cost of borrowing of these loans please?
- Tushar Mistry:** The average cost of borrowing for all these would have been upwards of 8%.
- Sanam Jain:** The marketing agreement that we are having for Zoetis, so do we plan to have such a marketing agreement with other animal health companies also?
- Manish Gupta:** Even in the past, we had such arrangements, but those were maybe one or two product arrangements, Zoetis was a slightly larger arrangement, that's why we reported it separately. But animal health market is all about cooperating with other companies because not every company can be in all the markets. So, we are certainly open to such arrangements and are also discussing many such arrangements.

**Sanam Jain:** So we are having this marketing arrangement with Zoetis only in India or is it across all our geographies?

**Manish Gupta:** No, this is currently only in India.

**Sanam Jain:** So it will be expanded to other geographies as well in the foreseeable future?

**Manish Gupta:** Difficult to predict, but obviously, if there is an opportunity where we have strength and they don't have strength, certainly, we shall look into it.

**Moderator:** Thank you. The next question is from the line of Hardik Bohra from Union Mutual Fund. Please go ahead.

**Hardik Bohra:** I just wanted some clarification from Tushar. Tushar, you said that there are some consultancy costs and even the export incentive benefit is not there in this quarter. So what would be the impact of these two things combined?

**Tushar Mistry:** So the consultancy cost is in the range of about Rs.38 million for the quarter which we say that will continue in the following quarter. On the export incentives, we have not shared those numbers, but it should not be very large.

**Hardik Bohra:** The guidance for margins touching about mid-20s. The timeline for that is about FY'25, right?

**Manish Gupta:** That's correct.

**Hardik Bohra:** This is just one question on the CEPs that we've been getting in the last two quarters. Manish, anything that has been a positive surprise in terms of the time of their approval or let's say the market dynamics or this is broadly in line with the guidance that we have given?

**Manish Gupta:** No, nothing has changed as far as regulatory framework is concerned as we see.

**Moderator:** Thank you. The next question is from the line of Jeevan, an investor. Please go ahead.

**Jeevan:** Just have two questions. What's the target of having debt free maybe in years or 'N' number of years, what would be the growth plan for that, along with some expansion plan, right? And second one is also simple. Just two or three key top points which you want to convey to your investors so that they can stay here and maybe others can also join?

**Tushar Mistry:** As I mentioned in my opening speech, if the current momentum continues, we should see the company getting debt-free in the next 15 to 18 months' time.

**Manish Gupta:** Second part of your question, Jeevan, is very, very tough. And as I alluded to, we are more a Rahul Dravid rather than the last over player company. So I don't think we have any two or three reasons for you to stay invested or somebody to be excited about us. We are a dull and boring

company as I keep telling, and a purely execution-focused company. So if you like such space, that's the only reason to stay with us. You will not see any exciting things happening at our end. Let me be very candid about it.

**Moderator:** Thank you. The next question is from the line of Rushabh Sharedalal from Pravin Ratilal Share & Stock Brokers. Please go ahead.

**Rushabh Sharedalal:** If you can help me with your working capital cycle in terms of days?

**Tushar Mistry:** So on the working capital cycle, we are now below 90-days cycle. But as we have been mentioning earlier also, different geographies have different cycles. We tightly control all the working capital cycles across all geographies, and we have been controlling that well over the last few quarters.

**Manish Gupta:** But the current 90-days cycle should be a good indicator for you in building our model.

**Rushabh Sharedalal:** Just help me understand regarding the formulations business. I wanted to know let's say that if you are expanding in Turkey, so the plan of the company is to actually set up a distribution network and contact the vets there. So, what kind of a distribution network in terms of number of veterinary doctors do we have in Turkey or in the other geographies where we are into formulations?

**Manish Gupta:** Rushabh, this will entail a much-detailed answer because we have different frameworks of operations in different countries. So what I would encourage is, if you can, post the investor call over the next couple of days, feel free to visit us at our office in Thane and we'll be willing to invest as much time as it's needed to give you a better perspective of our business.

**Moderator:** Thank you. The next question is from the line of Rajamohan Venkatraman, a professional investor. Please go ahead.

**Rajamohan Venkatraman:** You have answered this in the call, but I still wanted to understand whether more granularity can be provided on this. On the revenue growth, you did reiterate about mid-teens kind of growth. So generally trying to understand whether there are any upside risks because on the Carlyle-induced kind of growth, is there any greater clarity on more filings compared to the past filings compared to your say, earlier yearly filings, do you have any objective goals on higher number of filings? Moreover, with new facilities getting created, will that relieve any supply bottlenecks creating upside risk again to revenue growth apart from acquisitions? The commentary especially in Slide #9 seems to be quite positive of driving top line growth in a robust fashion. So that is the reason I wanted to understand whether there is any upside risk to the mid-teens kind of revenue growth?

**Manish Gupta:** Rajamohan, basically, in a regulated industry like pharmaceutical and including animal health, creating short-term upsides are very, very difficult because anything you do, including new product development has to undergo not only development but the regulatory approval process.

So from identification to commercialization is a minimum three-year exercise. So I don't see really any big upsides to our business plan, whether it is with Carlyle or without Carlyle in the medium term. Anything that they do or the board acts would be in terms of between three to five-year horizon. So other than M&A, I don't see any real change to our business plan in that sense at least for next two years, and all positive benefits out of this change of control and expanded horizon should fructify in a three-to-five-year horizon.

**Rajamohan Venkatraman:** So the number of filings that you do on a yearly basis, that again remains steady state, there is no possibility of it increasing in a material fashion?

**Manish Gupta:** Not for the next 12-months.

**Rajamohan Venkatraman:** After that, there is a possibility of that?

**Manish Gupta:** That's correct.

**Rajamohan Venkatraman:** On the margin expansion here again, you have answered. Again, I wanted to understand whether there is any upside risk to the medium-term operating margins of 25% because you have blasted through the margin predictions this year though you have moderated on the future margin expansion. Generally, I wanted to understand you indicated margins at 35%. Where can we realistically expect our margins at the peak and probably by when?

**Manish Gupta:** I think partly I had addressed that we are targeting to get into early 20s to mid-20s kind of margin range in the medium term of three to five years. So I don't think that guidance changes for us. We'd love to further improve margins as is the case with every business, but finally, it's a competitive industry and competitive business. So while we are well placed on margin front, we have to be mindful of competitive dynamics taking over. More than margins, what we are happier about is our cash flows and both the sustenance and the predictability of our cash flows. Internally, we always keep saying that we like profits, but we love cash. And that's what this business is all about. So I do understand that there are a lot of questions on margins, but I think some of you should start looking at our cash flows of business because that's what makes animal health unique compared to other businesses.

**Moderator:** Thank you. The next question is from the line of Mohit Arora from Sionic Advisors. Please go ahead

**Mohit Arora:** My question was what are the current asset turns in the API business?

**Manish Gupta:** I think there hasn't been much change, but we are running at around 2.5x.

**Mohit Arora:** And our long-term guidance for 3x remains the same?

**Manish Gupta:** Yes, Largely, we are on track of that.

- Mohit Arora:** Secondly, in terms of our partnership with Zoetis, would the margins there be higher than the corporate margins that we have right now?
- Manish Gupta:** I mean in any distribution arrangement; you can never have very high margins. Because obviously contractually we cannot disclose this information, but it helps, I can guide that this arrangement doesn't change our margin profile.
- Moderator:** Thank you. The next question is from the line of Siddhant Bhandari from Highwest Global Management. Please go ahead.
- Siddhant Bhandari:** So just a word on the cash conversion. Is the nine months sort of EBITDA to cash conversion run rate we should assume going forward with some variation, just wanted to check on that?
- Manish Gupta:** While Tushar will love it to be more than 100%, but as a businessperson, I can tell you, clearly, we could drive a lot of efficiency here in terms of working capital management and all. Converting 90% is not going to be sustainable all the time. But at the same time, the conversion rate will be much better than most other companies.
- Siddhant Bhandari:** Is that sort of a floor that you would give, or you prefer not to comment on that?
- Manish Gupta:** It is difficult to comment, but I would say, take last three years average, and that would be a better indicator of sustainable free cash conversion from the operations.
- Moderator:** Thank you. The next question is from the line of Manoj Garg from White Oak Capital. Please go ahead.
- Manoj Garg:** Just to understand like the way we have in-licensed the Zoetis portfolio in India and given the kind of strength which we have built up in many markets, including LATAM, Turkey and European countries, how are we seeing this strategic piece of the business by getting more products on the platform and leveraging our content relationships overall?
- Manish Gupta:** So Manoj, that clearly is a part of our strategy. While we did a larger deal with Zoetis in India a couple of quarters back, we continue to keep doing prudent deals and/or smaller deals in some of the markets that we are already present in. And front-end is really the strength in animal health, not the R&D/manufacturing. And if you see, our entire business model and business strategies are around building front-end, very different from typical human pharma businesses. So you have rightly pointed out, we are not only simply leveraging, but we'll also continue to leverage this front-end strength in being partners for many more companies.
- Moderator:** Ladies and gentlemen, we'll be taking the last question that is from the line of Mr. Vishal Manchanda from Nirmal Bang. Please go ahead.
- Vishal Manchanda:** Sir, on the API front, just wanted to understand whether your customers, the large ones, basically, the top-10 customers, are they switching their suppliers and shifting to SeQuent or



were these kind of backward integrated and since procurement from SeQuent which is more cost effective, they've started to buy from you?

**Manish Gupta:** There are multiple reasons, Vishal. Obviously, some of these were internally manufactured at their end or through CMO arrangements in the past. Most of these large pharma companies or large animal health companies are part of human pharma companies with integrated supply chain. And certainly, they are trying to create their own supply chain as we speak. So we are benefiting from a lot of things that are happening behind the scenes in animal health and verticalization of this industry separating from human pharma. So it's a matter of right investments at right time when we built up that Vizag facility and taking it up as a very focused strategy because there are no big products in animal health, there are multiple small products, not many companies can focus there, and that has been our forte.

**Vishal Manchanda:** Will there be a large addition to the cost once you commercialize your new facilities on the API side basically, on the employee front? Any sense there?

**Manish Gupta:** Not really.

**Vishal Manchanda:** Just on the formulations front, sir, if you look at next three, four years, could you kind of give a sense on what could be the total margin expansion say 400 basis points, 500 basis points on the formulations business front?

**Manish Gupta:** I wish I had those kinds of insights, Vishal. We'll be headed to better times certainly for sure but predicting that so much is very difficult. But happy to spend more time with you, Vishal beyond this call.

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

**Manish Gupta:** Thanks again for joining the call and engaging with some insightful questions. SeQuent remains focused on becoming a significant player in the global animal health industry as well as on delivering value to its stakeholders. Our chosen industry and diversified business model continue to provide us resilience in challenging environment and our unmatched execution has enabled us to deliver consistently over last 15 quarters.

We remain confident of our business going forward. Thanks again for joining us on the call and wishing you a good day.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of SeQuent Scientific Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.