



August 18, 2023

To,  
**BSE Limited**  
Corporate Relationship Department  
Phiroze Jeejeebhoy Towers,  
Dalal Street, Fort,  
Mumbai – 400 001

**National Stock Exchange of India Limited**  
Listing Department  
Exchange Plaza, Bandra-Kurla Complex,  
Bandra (East),  
Mumbai – 400 051

Scrip code: 512529

Symbol: SEQUENT

**Subject: Intimation under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Earnings Call Transcript for the quarter ended June 30, 2023**

Dear Sir/ Madam,

Pursuant to Regulation 30(6) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Earnings Call Transcript pertaining to the Unaudited Financial Results of the Company for quarter ended June 30, 2023.

The same is also available on the Company's website at [https://www.sequent.in/pdf/financial/2023-2024/SequentSci-Earnings-11Aug-2023\\_Final.pdf](https://www.sequent.in/pdf/financial/2023-2024/SequentSci-Earnings-11Aug-2023_Final.pdf)

Kindly take the same on records.

Yours faithfully,  
For **Sequent Scientific Limited**

**Krunal Shah**  
Company Secretary & Compliance Officer

SeQuent Scientific Limited

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“Sequent Scientific Limited  
Q1 FY 2024 Earnings Conference Call”  
August 11, 2023



**MANAGEMENT: MR. RAJARAM NARAYANAN – MANAGING DIRECTOR –  
SEQUENT SCIENTIFIC LIMITED  
MR. SHARAT NARASAPUR – JOINT MANAGING  
DIRECTOR – SEQUENT SCIENTIFIC LIMITED  
MR. PV RAGHAVENDRA RAO – CHIEF FINANCIAL  
OFFICER – SEQUENT SCIENTIFIC LIMITED  
MR. ABHISHEK SINGHAL – HEAD OF INVESTOR  
RELATIONS – SEQUENT SCIENTIFIC LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to SeQuent Scientific Limited Q1 FY '24 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 this conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded.

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

**Abhishek Singhal:** Thank you. A very good morning, and thank you for joining us today for SeQuent Scientific's Earnings Conference Call for the first quarter ended financial year 2024. Today, we have with us Mr. Rajaram, SeQuent's Managing Director; Sharat, Joint Managing Director; and Mr. P V Raghavendra Rao, CFO, to share the highlights of the business and financials for the quarter.

I hope you've gone through our results release and quarterly investor presentation, which have been uploaded on our website as well as stock exchange website. The transcript for this call will be available in a week's time on the company's website.

Please note that today's discussion may be forward-looking in nature and must be viewed in relation to the risks pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to the Investor Relations team.

I now hand over the call to Mr. Rajaram to make the opening comments.

**Rajaram Narayanan:** Thank you, Abhishek. Good morning, everyone. A very warm welcome to everyone for the quarter 1 earnings call for the financial year '23, '24. Joining me on this call is Mr. P V Raghavendra Rao, our Chief Financial Officer; and Mr. Sharat Narasapur, Joint Managing Director.

At the last earnings call, I had shared with all of you the steps that we had initiated to reshape our operations to make them more competitive. And I'm happy to share that we have made very good progress on various initiatives and are now at a stage which sets us up for a steady performance in the balance of the year and thereafter.

But before that, let me first provide you a view of the macro environment, which is relevant to us because we operate in multiple markets. Across our markets, we are seeing the pressure of inflation which despite all efforts of the government does not seem to be coming down as fast as we would like it to. Consequently, there is a slowing down of demand at a customer level and also some cautiousness in the B2B segment of the industry.

We are also seeing currency volatility in some of the emerging markets, which is aggravated by political events. We expect that this will continue in the short term. However, the larger contribution of developed markets to our business will be of great help to us in such a situation.

As you know, our industry has two distinct segments: medicines for production animals and medicines for companion animals. Across the world, the production animals business has been impacted by high feed costs due to issues relating to war and other farm-related issues. This, in turn, has impacted the demand for nutritional additives and medicines. On the other hand, the demand for medicines for companion animals remains intact and is growing as pet adoption, incidence of diseases and lifetime of pets increases.

It is in this context, that is the macroeconomic development as well as industry trends, that we see the need to adjust quickly and adapt our operations. We are the largest animal health company operating from India with a presence in over 100 countries in regulated and less regulated markets. Our unique combination, which is a formulations business with a front-end presence in key animal health markets of the world, and at the same time an established US FDA-approved veterinary API facility, will help us leverage the emerging opportunities. But to do that, we have to take some decisive structural actions for long-term competitiveness.

While Raghav will talk in detail on the quarter financials, let me share some highlights of our overall results and also give you a sense of the direction. Our overall revenues in the quarter have come in lower declining by 2.4% year-on-year. The formulations business has shown marginal growth overall at 0.7% in this quarter, compared to the same quarter last year, but we've also seen good growth in some pockets of the formulations business. Our actions in Europe have begun to deliver as the European business returns to growth in addition to showing an upward trend in margins.

The rationalization of the portfolio and discontinuation of manufacturing operations in Germany will begin to impact our results positively going ahead. The formulations business in India has shown strong growth on the back of new products as well as expansion on the ground force.

We do, however, have a specific challenge in Turkey due to the high inflation and devaluation of the currency which had impacted our results this quarter. However, we had already initiated strong pricing actions as well as cost containment measures, which will result in margin improvement from the fourth quarter.

Turkey is one of the leading markets in the world for animal health and our company has a strong presence there. We will soon be introducing new products and be prepared for the likely recovery of demand and stability of economic conditions.

Coming to our API business. While our API revenues have been subdued due to one-off actions, we have begun to see the initial recovery in margins. The drop in revenue is an outcome of two factors, delayed orders from some long-term customers in regulated markets as well as the postponement of some shipments to the following quarter due to the revamping of our manufacturing footprint. We expect the run rate of orders in API to stabilize over the next two quarters. Our program for delivering operational excellence in APIs is on course, and we have begun to see a margin improvement already.

Our manufacturing footprint has been further optimized with the discontinuation of manufacturing operations in Tarapur. We continue to lay a strong emphasis on conducting

regular training, safety audits and behavioral interventions, which are supported by a fully equipped health infrastructure.

During the quarter, we had three customer audits, all of which were successful. Further, our facility at Mahad successfully underwent a WHO Geneva pre-approval inspection. While quarter 1 has seen a muted performance in sales on account of some re-calendarization as well as transitional connectivity issues, we expect an acceleration in revenues and margins for the rest of the year.

In quarter 1, we have also successfully commercialized the new custom generics and obtained a new CEP filing. This takes our aggregate filings to 30 USVMFs and 17 CEP filings. We have completed a few significant actions during the last two quarters, which position us well for the rest of the year and beyond.

Before I hand over to Raghav, there are two areas I would like to draw your attention to. First, growth. While the recent two quarters have seen mixed and somewhat muted growth in a volatile environment, we need to be focusing on profitable growth. The corrective actions will help us grow on a profitable and sustainable portfolio. The foundation for acceleration has been set. Our filings and pipelines are being fast tracked, and we are positioning ourselves for a recovery in the macro environment. The second is in the area of profitability.

While the EBITDA has come in lower this quarter, it does not adjust for the impact of one-off restructuring, both in API and formulations, which will continue to give us benefits in the coming quarters. Factoring in these benefits, we expect the continuing EBITDA to be in a higher range.

With these plans now initiated and most of them at an advanced stage of completion, we expect to exit the year with double-digit margins and set us up for consistent quality growth in the longer term.

So I will now hand over to Raghav for more details on the financial performance and come back to you during the Q&A. Over to you, Raghav.

**P V Raghavendra Rao:**

Thank you, Raja. Good morning, everyone. I will now briefly update on key financial metrics for Q1 FY '24. Our total revenue for the quarter is INR333.2 crores, down 2.4% year-on-year and 9.1% Q-o-Q. Our formulations business contributed INR247.8 crores to the top line with a growth of 0.7% Y-o-Y. Our various interventions in Europe, including portfolio restructuring has helped our European business growth. Europe clocked a revenue of INR117.2 crores, a growth of 2.3% Q-on-Q and 11.8% Y-o-Y.

India business clocked a revenue of INR25.4 crores, which is a 6.9% growth Y-o-Y and 19.4% Q-on-Q. Turkey, however, continues to be a challenged dragging down the overall formulation growth. We also had some headwinds in emerging markets due to US dollar availability crisis in some of the customer markets. The API business revenue is INR80.7 crores.

Overall, gross margins for the quarter is at 41.5%, compared to 39.5% in the previous quarter. Because of various interventions in operations that we have been doing, we believe this should come better from here. In spite of inflationary pressures, we have managed to control our

operating costs. Our operating expense is at INR71.3 crores, compared to INR75.1 crores during the previous quarter. Employee cost is at INR57.8 crores against INR57 crores in the previous quarter. Q1 EBITDA, excluding ESOP cost is INR9.3 crores and is at 2.8% of revenue. ESOP for the quarter is INR6.4 crores.

During the period, as part of the overall business restructuring drive, the group has revamped the manufacturing and procurement processes at this plant with the object of overall network optimization and cost reduction. The group has also closed its manufacturing facility or discontinuing its operations at Tarapur, Maharashtra and additionally relocated. In this regard, we have recognized INR23.5 crores as a non-recurring exceptional item. Other than this, there is INR2.7 crores hyperinflation-related impact, of course, driven by Turkey.

We had an exchange loss of INR8 crores in the current quarter, which is almost entirely driven by Turkish lira depreciation with US dollar. Our working capital now stands at INR366.8 crores, as compared to INR426.1 crores at the end of March. We will continue on further optimism in the working capital. Net debt is at INR367.8 crores against INR356.1 crores in March.

With this, I take a pause. Thank you all for your support, and I request if the forum can be opened.

**Moderator:** Thank you very much. Our first question is from the line of Shantanu Maheshwari, who is an investor.

**Shantanu Maheshwari:** We have seen a revival in Europe formulation business this quarter. what is driving this improvement in the business? Can you please elaborate?

**Rajaram Narayanan:** Is that the only question you have?

**Shantanu Maheshwari:** I have two more questions.

**Rajaram Narayanan:** Can you just put, for all the two questions together, so that I can just do it together.

**Shantanu Maheshwari:** The next one is the Indian formulation business seems to have grown at a healthy pace sequentially quarter-on-quarter. Should we expect this trend to continue? And my final question is, could you tell us a little bit more about the Turkey business situation and what efforts are we taking to address the challenges over there?

**Rajaram Narayanan:** Thank you for this. So first, on the European formulation business. As you know, we have a business in Spain, which is both manufacturing as well as distribution. And then, of course, in countries like, Belgium and Netherlands and Sweden, we have a distribution business. So we have done two kinds of initiatives. The first has been, of course, from a resources improvement program. We have got out of low-end commodity businesses, which were very volatile in terms of margin and begun focusing our growth resources more on branded as well as on pharma-related products.

The second piece over there has been reduction in the cost structure where we have simplified it, brought teams together, etcetera. And therefore, the large part of our business, which is really

in Spain, which used to be on the lower side of EBITDA. We are now beginning to see 2% to 3% kind of improvement, which has been kind of coming in the margins over there. And what is also helping is that we have accelerated the growth of whole range of gut health product, which is easy to sort of extend across multiple markets. So it's a portfolio which is growing as well as, of course, reduction of the portfolio in terms of low-margin products. So a combination of these two has now created a business, which is healthy and profitable, and more in line with the market trends.

Coming to the specific issue on India, yes, the Indian formulation business has grown well. We have two parts in this business, products which we manufacture and which we own the licenses for. But we also have a distribution business where we distribute for Zoetis, the products in the cattle range. We have seen these businesses grow for two reasons. One, of course, you must remember that on a like-to-like basis, the previous quarter, which is quarter 4, is generally a more muted quarter in the industry, the time when the business is a bit slower.

So you may see sequentially a better number. But at the same time, we have also launched two new products in the market, which have helped us get some additional sales in the quarter. We expect the India formulation business to grow on a full year basis continue to have steady growth. Of course, there will be ups and downs based on seasonality as well as the fact that we are also distributing for a principal. So it depends on some of the introductions from them as well. But I think on a bit more longer term, the India formulation business is a steady growth business with decent margins.

As far as Turkey is concerned, the first thing to remember is that Turkey is a very, very important market for the animal health industry in general. It is a top 10 market both for production animals as well as it's a very large emerging market for companion animals. What's happened in Turkey is the two, three issues. One, very, very high inflation, which has begun to impact both consumption and of course, has also impacted feed costs which go in for the feed, which is required for cattle. As a result of which, farmers in general have started going a bit slow in terms of medication or in terms of nutrition elements and additives. So inflation has impacted both the cost for farmers and it is also, to some extent, impacted demand.

But the second piece, which will come in is really on the foreign exchange. After the President has been elected very recently, there has been a change towards more well-known economic policy and a more accepted economic policy because of which the currency has been allowed to be devalued for a while. So we are now seeing that also impacting us.

So there are two actions which we are taking. One is, of course, speedily we have taken price increases so that we take advantage of the fact that there is an opportunity to counter the inflation. The second piece is, of course, that we have also started looking at the basic operating and cost structure to ensure that we are efficient in such a volatile environment.

The third area which we are looking at key, which we have been seeing before, is that there is an opportunity for us to use Turkey as a base for exports, which hedges in terms of foreign exchange and at the same time, Turkey is also becoming a competitive place. We have a manufacturing plant, both for injectables as well as for other animal health medicines. And we

think that some of the exports which we have to other markets can be done out of Turkey. And these three actions should stabilize our business while we expect the market to recover in the short term.

**Moderator:** Thank you. Next question is from the line of Nikhil Shetty from Nuvama Wealth Research. Please go ahead.

**Nikhil Shetty:** Sir, we can see you're doing lots of positive changes in the business on a product side and streamlining business. So we understand they are challenges on a demand front, but these recurring one-offs every quarter make us difficult to predict how things are shaping. So if you can help us to understand from when do you expect things to start to improve? And any guidance on revenue for FY '24, FY '25 and benefit because of project in '24 and '25?

**Rajaram Narayanan:** Yes, I think we've had two quarters. Now, it is last quarter and this quarter, where we've had different one-off which we have had to take in our results. Will this continue? No, I don't expect there to be any large unless there is a really adverse event because we have specifically done this in order to restructure our operations. These are not related really much to anything which is a macro issue. And therefore, our expectation is that this will now result in us getting the benefit of both margin improvement, lower costs starting from the next quarter.

We have said earlier that we expect to end the year and exit, we expect to exit the year at double-digit margin on EBITDA for the business. And at this stage, given our plans and the way the execution of these projects has happened, we continue to retain that confidence. So you should expect that by the end of the year, we should be able to get to double-digit EBITDA margin. And then, of course, going ahead, we do have a plan which should take us to the higher end of teens as far as the EBITDA margins are concerned in the next two to three years. And I think we, at this point in time, remain with that confidence.

Now in terms of what should you sort of look at the EBITDA going ahead. I think if you look at this particular quarter and specifically, I mean, we've shown an EBITDA before ESOP of INR9.3 crores. And there are one-offs which are there. There are a combination of things that is a benefit, which will come from the discontinuation of operations of Tarapur, our API plant, German operations, which we announced at the end of last quarter. But most of the execution is happening now.

And also the fact that we have some one-offs with related to the connectivity issues around API because we have restructured some of the business. So I think we should look more in the region of an equally INR8 crores to INR9 crores more in the area of what EBITDA would add up, and that's really what should be the base of which we continue.

Sorry, you had another question after that?

**Nikhil Shetty:** Yes, yes. So you talked about double-digit margin. So is it a result of price hike or from the streamlining of operation? And are we going to benefit because of the falling chemical prices?

**Rajaram Narayanan:** So there are a few areas in which we are working on the API side, in particular. So some of it is because of benefits we will get on in the area of procurement. Some of it, which is both, of



course, the absolute cost of the product. But also has an issue around some of the actions we are taking to improve our procurement costs, etcetera.

But you have to remember that there is also a whole impact of portfolio as we begin to drive the portfolio towards higher margin, more towards companion animals and to higher-margin products. We should see that also giving us the acceleration in the margin. So it's not just coming because of cost pickups, it's also coming because of the shift which we are seeing in our portfolio. We did see a lower contribution of regulated markets this quarter, and that is primarily because some of the key regulated market shipments more back-ended for us in API. And that mix will also take us to a higher margin profile going ahead.

But I think you should look at our API business more on an annualized basis. And I think on a full year basis, we expect to become competitive and profitable in the second half of the year.

**Nikhil Shetty:** That's helpful. And just lastly, just wanted one clarity on INR21 crores pertain to domain expertise towards revamping of API manufacturing operations. So what is that? And can you throw some light on this?

**P V Raghavendra Rao:** Yes, there is a lot of work, which is going on in the manufacturing operations, so, whereas we are discontinuing operations at some of the sites like Tarapur. There is also some work going on in the existing operations that will continue in terms of resetting it for the future. So this expense pertaining, this onetime expense pertains to the resetting of the existing operations at the sites that will continue to help us grow.

**Nikhil Shetty:** And how much benefit we are going to get because of this?

**P V Raghavendra Rao:** This is all part of the overall umbrella of Project Pragati that we spoke about.

**Moderator:** Thank you. Our next question is from the line of Krisha Kothari, from – who is an investor. Please go ahead.

**Krisha Kothari:** I had a few questions on the API business. So this quarter, the API sale has been low at INR81 crores. Is this the new average? And what should we expect for the rest of the year?

Secondly, any new contracts that we have received in your API business, which can materially add to your sales? And lastly, can you elaborate more on the Project Pragati and how it will impact the business? Thank you.

**Rajaram Narayanan:** So I'll start with the first piece. No, this is certainly not the resetting of average the API business is something that we should look over a little longer period. We certainly, as we've said, have moved some amount of sales on account of the restructuring that we have done. We expect certainly to average around INR100 crores in this business. That's more the kind of average at which we should be operating and we expect to be operating on a full year basis. And I think we should begin to see that coming in from next quarter itself. So it is a lower sales, but it's something that's a one-off and then we expect it to continue more in the region of INR100 crores growing ahead.

The second question you have is on whether we have had any new contracts. Of course, we keep having new customers coming in for existing products every quarter. In terms of a new arrangement, we are right now, we have commercialized a new product with one of the top animal health companies. But this will really fructify into a formal business more after one year or two years. At this point of time, it has been commercialized, validated, NBF being approved, and we think that this will also turn out to be a bigger opportunity for us going ahead. There are, of course, a few projects which are currently under discussion, something which we cannot disclose right now on a call.

The last portion of your question is on Project Pragati. It's a comprehensive program. It has four or five components. The first is really around the improvement of yields and efficiencies around some of our products, which make the cost of manufacturing lower and also make these products more competitive.

The second part of Project Pragati involves the overall cost structure of the operation in terms of the manufacturing footprint, etc. The third is in the area of procurement. The fourth is relating to consumables, raw materials, utilities, etcetera. So it's a hopeful comprehensive program. And the last part of it, of course, is on making sure that we are driving the higher-margin pipeline in this.

And so there are different components to Project Pragati. And each of them sort of manifest itself in different months during the course of the year. That is why it all takes us to be earlier confidence which we have, which is that by the time we complete the implementation of this project, we should be hitting double-digit margins for the company by the exit of this year.

- Moderator:** Thank you. Our next question is from the line of Darshan Shah, who is an investor. Please go ahead, sir.
- Darshan Shah:** So I have two questions on debt and margins in M&A thing. The first thing is, are you comfortable with the current level of debt? And what is the management target for the same?
- Rajaram Narayanan:** And what's the second question?
- Darshan Shah:** What is the management target for the same?
- Rajaram Narayanan:** So that's is your full question or is there anything more after that? So that I would like to take the questions together.
- Darshan Shah:** Yes. This is the first question regarding debt. So if you're comfortable with the current level of debt and what is the management target for the same?
- Rajaram Narayanan:** Maybe I'll ask Raghav to speak to about this.
- P V Raghavendra Rao:** Yes, Darshan, we are comfortable, but yes, of course, we would like to take the debt further down and we are working towards that.
- Rajaram Narayanan:** Any targets, he is asking.

**P V Raghavendra Rao:** I would not like to call out the number, but we have a target in mind in terms of the debt-to-EBITDA ratio, Darshan and it will definitely trend down towards the end of the year.

**Darshan Shah:** Okay. Thank you. And my second question is, if you could elaborate on any plans for M&A and how do you intend to fund it?

**Rajaram Narayanan:** So we are always on the lookout for assets, which are investing both in terms of full acquisition, partnerships, licensing, any other kind of arrangement. It's just that we want to make sure that it's aligned with our strategy. We have a couple of focus areas. We are keen on the area of companion animals. We are looking at a few markets only, even though we have a presence everywhere. So some of our focus markets are markets like India. And the third piece of it is that it must be something where we can add value to this acquisition. And together, it should deliver more than what it can do individually.

As far as the nature of funding, etc., is concerned, I think any such acquisition for us will need to be very responsible. So we're not going to chase any toy as far as M&A is concerned. And we don't see an issue of having options of funding. It's the things which we can do on our own. And at the same time, we have a very strong backing from our lead promoters whenever something is required. So if there is an appropriate asset, we will definitely be able to go for it.

**Moderator:** Thank you. Our next question is from the line of Raj Oza, who is an Investor. Please go ahead.

**Raj Oza:** So in this quarter, you have indicated restructuring costs in addition to what was taken last quarter for Germany. So are we expecting more in the coming period? And when will we begin to see the benefits coming in. This is my first question.

And second question is, like, are there any risks you see that are likely in the next few quarters? And what are we doing to mitigate or manage it?

**Rajaram Narayanan:** So these one-offs and costs are linked to -- which we have for reshaping the manufacturing footprint for improving our margins for structuring our portfolio of products, etc. And therefore, these are not sort of unexpected one-offs. These are part of the plan to do. So in that context, we have do not expect, based on our current plans, any need for a large one-off of this size going ahead. Can we say that we will not get something, not -- anything? There's nothing planned, but we operate in a very volatile market right now and the economic conditions are such that one can never rule anything out. So I can't give you that kind of a guidance. But there is no planned one-off in the near future.

The second question you have is in terms of are we seeing any risks? I think for us, the risks are largely macro because I think operationally, we are getting to be a strong company in terms of being profitable, in terms of having a portfolio which is going to grow profitably. We have a good pipeline, both in formulations as well as in APIs, which is likely to get commercialized in the next one year to two years.

So all of those things are going on plan. The risks are largely macro as we are operating in multiple countries. And that's the only risk that we see if there's anything which is economically

unexpected anywhere. Although, we have taken a large amount of mitigation actions for that in terms of being prepared for any such situation.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

**Rajaram Narayanan:** Thank you for attending this call. And our presentation is, of course, now available. I'm really grateful to all our employees, investors, our Board and everyone who has been supportive of our journey.

We do believe that our plan, which is there of improving the profitability of the company and also directing all our efforts to growth in the coming years will help us in re-establishing a position as an admired company in the animal health space. Yes. We look forward to meeting you in the next quarter. Thank you.

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