"SeQuent Scientific Limited Q2 FY21 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen and a very warm welcome to the SeQuent Scientific Limited Q2 FY21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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 '*' followed by '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: A very good evening and thank you joining us today for SeQuent Scientific's earnings conference call for the second quarter and half year 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 have gone through our results release and the 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 handover the call to Manish to make the opening comments.

Manish Gupta: Good evening friends. A warm welcome to all of you for the Q2 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 and the same has been uploaded to the exchanges as well as our website.

This quarter is indeed a special one in the journey of the Company, a quarter where there was a seamless transition to a new promoter in Carlyle who have assumed charge to give the strategic direction and resources to drive the Company into the next Orbit. The Board has also been broad-based with the induction of Mr. Kamal Sharma and Mr. Milind Sarwate, industry stalwarts who join us as Independent Directors and also Mr. Neeraj Bharadwaj, Mr. Rahul Mukim and Mr. Gregory Andrews who joined the board as nominees of Carlyle.

Going by the first board interaction I had with them today, I am convinced that their inputs and their combined experience will add immense value for the SeQuent shareholders in the longer term. At this moment, I would also like to place my heartfelt thanks and gratitude to our erstwhile promoters who have provided us the necessary support and impetus to guide the Company through a phase which we call Sequent 1.0.

It is still early days and we are yet to fully visualize Sequent 2.0. However, I must mention that I see Sequent 2.0 to be no different from 1.0, excepting may be a little bolder in vision. Towards that end, your Company has already consolidated its minority holdings in Turkey and Netherlands, a clear reflection of the confidence in the growth potential of those businesses going forward. Greater details of this are called out in the earnings deck that has been circulated.

As we broaden our business canvas, it is also imperative to look at the bigger picture of the industry that we straddle – the animal health industry. For the people that have followed our story, you would agree with me when I say it is unique in many respects and does not necessarily mirror the human pharma sector. While we have learnt the nuances of the industry, it requires an extra impetus to leapfrog rivals and be counted in the space. With this in mind, we have hired Stonehaven Consulting, a niche animal health consulting firm to help us draw out a blueprint of the journey of the Company into the next Orbit. We do believe that the inputs of Stonehaven will transform the outlook and put us on a path that would enable us to dream of being a top 10 animal health Company in the world.

While the Company is on a transitionary path, there is an alignment and continuity with the existing management team ensuring stability and direction to the journey.

It gives me great pride and satisfaction to say that the whole team at SeQuent 1700 plus strong workforce at SeQuent have raised the bar bringing out three of our best quarters in challenging times. We have turned in this performance while keeping Employee Safety as a paramount consideration. While we did have an incident in Mahad where our factory had to be shut for 10 days due to a cluster of Covid cases being detected in the area, our operations in other plants have continued uninterrupted.

This brings me to the operational performance for this quarter. This was another quarter of strong performance both at the revenue and the margin levels. Revenues at Rs. 346 cr. for this quarter were up by 21% over the corresponding quarter of last year and on a half year basis they were up almost 17%. EBITDA at Rs. 59.8 cr was up 58% on a YoY basis and the half year EBITDA also showed a similar momentum to finish at Rs. 112 crores.

Profit after tax for the quarter was flat on account of one-off cost on account of acceleration of ESOPs and one-time bonus due to change of control as well decision to wind down of operations in France due to the current unfavourable environment. The adjusted PAT for the quarter was Rs. 29.7 crore. Cash from operations for the first half at over Rs. 1 bn not only reflects our strong business model but also helped us pare down debt by almost 33%.

The growth for the quarter was formulations-led with business growing by 24.7% for the quarter on the back of some strong performances across the geographies of Latam and Turkey. India also contributed to the sharp recovery as far as the emerging markets are concerned. API business continued to show traction with growth of 18% translating into higher revenues at Rs. 120 crores.

On the balance sheet side our focus on cash generation is paying rich dividend with 100cr+ cash from operations in first half while our EBITDA to cash conversion is at 80%+. At this rate we expect to become debt free in next 12 months. Return on Capital employed is also in early twenties now.

We continue to look at the rest of the year with increasing confidence, even as we stay cautious and brace ourselves to the second wave of lockdown in many of our markets.

I will now throw open the floor to Q & A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.

Vishal Manchanda: I just could notice in your presentation you have indicated the approval for the injectable products that was basically the largest injectable products in animal health has come through for you in Europe. So could you kind of talk about the launch plans and the competition that you have? Whether other players have also got an approval here?

Manish Gupta: Vishal, obviously this being the largest injectable product and also one of the largest opportunities in animal health, we believe this would be kind of a game changer in animal health industry which generally does not see too many launches on day one of patent expiry. This will be an exceptional product. As we speak there are 13 approvals for this product in Europe including ourselves. That is as far as competition is concerned.

We do not know how the competitive behavior will pan out because animal health does not have the gap in terms of pricing between generics and innovator prices as you will see in human Pharma. However, this product might become different and we will figure out as we go along. At our end we are ready for the day one launch in a way and the patent expires sometime in December and we should be in the market at that point of time.

Vishal Manchanda: Okay so there is a bit of competition on this product. So would that mean can the innovator also discount because is that a possibility does the innovator also discount their products in order to retain market share or that is not a phenomena we see in the animal health markets?

Manish Gupta: Again without commenting on what will happen in this product because this in a way will slightly change the rules of the game of this industry but generally speaking innovator does not discount in animal health for the simple reason because the genericization is slow and if they discount they will be losing much more than by not discounting it.

Vishal Manchanda: So just wanted to ask you whether we will need to file again for various geographies separately like if you want to launch in Spain , would that mean a separate filing from now on or so basically how does this work now in terms of launch?

Manish Gupta: So this is the DCP, De-Centralized Procedure, and so therefore in a way based on our filing we had filed for about 19 countries in Europe. So, in effect, we have approvals in those 19 countries.

Vishal Manchanda: And like-wise the competition too would have not filed for the entire Europe, would you come to know which countries have the competing players filed for?

Manish Gupta: Everyone has their own strategy so I cannot give a general answer. But my guess is you will see between 8 to 10 competitors out of the 13 in every country. But that is a very general response. We can do a country-by-country analysis to have a precise number.

Vishal Manchanda: And the other point is like there was an exceptional charge you took about closing down your France operation. So could you talk more about why that decision to close down France?

Manish Gupta: So as you would have been hearing us in the past France and Italy were the two markets wherein we had established greenfield operations in last couple of years. Clearly the COVID environment makes it very difficult to do startup operations in any country since branded generic marketing is physical contact intensive wherein you go out and detail to customer. Now for last 7 months obviously that has been a struggle.

And therefore with the new shareholders when we got together, one of the calls that was taken was that with the uncertainty around this going to prolong for a longer period of time there was no point in continuing to lose and therefore it was decided to wind down the operations in France. You will also notice that we have not done the same in Italy while we did it in France.

The reason is that the models in both France and Italy are different. In Italy you do not hire the field force while in France you have to hire field force on your roles. So therefore the cost structure has become very different. And that is the reason we took a call for France even as we continue to invest in Italy.

Vishal Manchanda: So would this mean you will have some savings going forward may be not very meaningful but this will lead to some savings going forward?

Manish Gupta: There will be some but it is not material in the scheme of things anymore.

Moderator: Thank you. The next question is from the line of Cyndrella Carvalho from Centrum Broking. Please go ahead.

Cyndrella Carvalho: So what is driving our numbers post-COVID? I mean if you could help us understand even on the formulation side our efforts are visible very, very strong. Even on the API side and when I look at the margins we are definitely delivering them ahead of what anyone would have expected. So if you could help us understand the key drivers?

I understand our earlier commentary so anything incremental overall if you could highlight? And the second part is on the Indian formulation side. So if you could you have a commentary mentioned that this is 2x growth. So if you could help us understand that as well?

Manish Gupta: Cyndrella, I would refuse to give our secret soup for obvious reasons. But it is all about execution and animal health industry is all about small things. There are no big ticket opportunities. So it is doing many small things and continuing to stay focused on doing those many things. That is the very simple secret on the way we are running. Our business is built around multiple growth models.

So to that extent we are not dependent on something to fire all the time for us. Further, I must compliment the quality of teams that we have built up over the years which has helped in this execution. So I do not honestly have a simple answer for the first part.

The second part which is pertaining to our scale up in India business. Clearly the scale up has occurred on three counts. One is the distribution of Zoetis products that have been started in the current quarter. But beyond that even our own portfolio has done well and we have grown about 32% in the first half for cattle business without considering the Zoetis portfolio and third is the poultry side of business which we all know that suffered in the first quarter because of the COVID related rumors that had come around the poultry business. Therefore even that business is also on recovery mode as far as Q2 is concerned. So all in all we kind of more than doubled our revenues in India driven by all the three factors.

Cyndrella Carvalho: And one more if I may. Sir, just want to understand the filings that we are discussing in terms of the larger products earlier the participants were asking. If you could let us understand how many such more can we expect in another one or two years?

Manish Gupta: So you see filings so they are not too many big products in animal health and some analysts wants to see big numbers, we actually do not like big numbers as we have all discovered even in the case of Tulathromycin wherein there are 13 participants on day one.

So we actually as a company prefer smaller products and that has been our strategy and that also is the way animal health industry is structured to be like. So therefore I do not foresee any even a $100 million opportunity in animal health going off patent in next three years.

Cyndrella Carvalho: And sir, on the API side, the growth if you could help us understand the growth in terms of price and volume and the stability around the pricing?

Manish Gupta: So see we have been guiding around this kind of growth numbers in our API business for many quarters now. And this is part of our strategy. There is no price led growth in terms of price increases but it is the quality of business lead growth. As we move more and more from unregulated markets to the better markets of US and Europe.

So same products obviously fetches you better outcomes in these markets and this is part of the design and that is how the entire Vizag investment thesis is. So if you are referring to price increase coming out of something happening in the market place that is not what we are focusing on. Our focus is on getting better realization through better customers and/or better markets.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Svan Investments. Please go ahead.

Sachin Kasera: My first question was on US. Is it that with the new consultant now we are again have to look at completely new strategy for the US or if you could just tell us what are your thoughts on the US market going ahead? So I think earlier we were looking at somewhere around FY22 launch for the US business?

Manish Gupta: So I think the appointment of this new consultant Stonehaven has nothing to do to shape up our medium term strategy. It is all about shaping the next vision for SeQuent may be in next 5 years' time. So the real scope of their work is setting up a vision for SeQuent 2.0 which entails new markets and/or new areas of business.

So like we are currently focused on production animals should we look at companion animals as well. So those are the kind of strategic imperatives that the new consultant is looking at because they are global leaders or experts in animal health sector. Having said that I do not foresee any changes in the outcomes that we are planning in the next 2 years to 3 years.

Sachin Kasera: So in that case can guess a bit of what is the status of our entry into the US market and we were looking at FY22 launch?

Manish Gupta: So say except for a potential acquisition I do not think anything changes as far as our US strategy is concerned. And there is no way we can fast track anything in US. We will still be in line for calender year 22 launch as far as our formulation commercialization is concerned in the US.

Sachin Kasera: And sir, currently what is our pipeline in US, if you could just update us in terms of their filings and how many products you think you will be able to launch next year tentatively?

Manish Gupta: Now so as we speak there is only one filing that we have made so far in US. And we currently are working on a pipeline of 10 products which will be commercialized in the next 3 to 4 years.

Sachin Kasera: Sir, my second question was on Turkey because of this currency depreciation the reported numbers are much lower than the constant currency. So just to understand this entire growth of 48% in the quarter and may be 30% plus in the first half. Is it all volume driven or this is that because the currency depreciating so much we also adjust the prices so to catch up? If you could just tell us that because in case it is volume driven then once the currency stabilizes then the reported numbers from Turkey would also look very, very good?

Manish Gupta: So a large part of this growth is volume driven. Having said that, you do periodically adjust your prices for currency but if you notice the currency depreciation has been very sudden in Turkey because of the geopolitical events around the country. So therefore I would say almost 75% of the growth is coming out of volume and about 25% odd would come out of price adjustments.

Sachin Kasera: And so does this mean that we are getting lot of market share in Turkey because this type of growth I am sure the market must have been growing at such a fast pace?

Manish Gupta: So being a local manufacturer obviously has its big advantages and that is what we are really taking good advantage of.

Sachin Kasera: Sir, my last question was on India. Have you seen the full benefit of this Zoetis tie up or part of it say it get reflected fully in Q3?

Manish Gupta: The Zoetis arrangement was effective for the entire Q2 as it was commercialized from 1st July. So therefore benefit is fully there in Q2. Having said that the benefit will continue in Q3 and thereafter

Sachin Kasera: I was talking more in terms of certain integration or synergy benefits or distribution those types of things?

Manish Gupta: No, there is no such thing because the entire sales and distribution is handled by SeQuent / Alivira. So there is no further integration benefit or anything. We have a transfer pricing arrangement with Zoetis. They supply us at a price and we sell it at our own price. So it is a very neat and clean arrangement. There is no rationalization of expenses concerned here.

Moderator: Thank you. The next question is from the line of Sajal Kapoor from Unseen Risk Advisors. Please go ahead.

Sajal Kapoor: I have a couple of questions. First one is on our cash flows. So on EBITDA to cash conversion, in animal health when we look at players like Zoetis and Elanco and other large and midsized companies, they typically covert 75% to 80% EBITDA in to cash. So how come we have done much better in H1 and can we continue to do this 85%, 90% conversion EBITDA to cash going forward because H1 we have done 90%?

Manish Gupta: So this is in a way is slightly different period that we are dealing with and given the quality of our customers obviously our cash flows and EBITDA to cash conversion is very high. But I would tend to agree with you in terms of that on a longer term basis that 75% to 80% would be a good indicator and not the 90% that we have achieved in the first half. And this will also be reflected if you see our cash flow statement over couple of years we have been in that region consistently.

Sajal Kapoor: Yes Manish, agree. That is helpful.

Manish Gupta: Just to add on obviously we were also extremely cautious given the uncertain environment we were living in, we were also very concerned and very focused on this aspect in this quarter or this half year. That also is reflected in the numbers.

Sajal Kapoor: Which is part of our execution over the period, right? So that is where the management execution comes into play. So that is very heartening to note. Manish, on this CDMO what is good to see some early progress you had mentioned some two products there?

So on the two USFDA approved GMP complaint analytical services labs that we have one in Mangalore and the other one in Bangalore, how do they fit into this larger CDMO services and where can this business as a whole go in the next say three to five years assuming we get to work with majority of the large and midsized companies?

Manish Gupta: So Sajal, this is one question you will have to give us some time to respond. This is also part of the mandate we are working with Stonehaven because technically or tactfully we are only going to focus on veterinary CDMOs and not get into the human space. So we are yet to size this opportunity and this is something we will have a better response may be in a couple of months' time post our engagement with Stonehaven.

Sajal Kapoor: Sure Manish, and if I can just quickly squeeze one more. So on the US distribution alliance and/or inorganic uptake because I think we have just 4 months, 5 months away from the patent expiry of that big cattle injectable absorators in the US. So if inorganic is not possible then we would have to do some sort of our distribution alliance with an existing player or something around. So can you just throw some light on that front please?

Manish Gupta: Yes, so I think we have been clear on this that we would not be on day one in US as far as that product is concerned and we will be at least 15 months to 18 months post the day one for our launch of the product. So per se it does not bother us.

It is not part of our business plan. In fact while there are 13 approvals in EU, there is still not a single approval in the US. And the single reason is that there are not many USFDA approved injectable plants in the veterinary space while there are many in the EU space.

So there is a big difference between US and EU as far as the injectables are concerned. I do not foresee significant competition in US at least for some period of time. We will be certainly delayed and as far as our own acquisition strategy for US is concerned is again that is one area of significant engagement with Stonehaven and we also see Carlyle playing a very big role in terms of enlarging our vision as far as acquisitions are concerned for US.

Moderator: Thank you. The next question is from the line of Ashish Thavkar from Motilal Oswal Asset Management. Please go ahead.

Ashish Thavkar: Sir, you did say earlier that we have six close to filing and given that 40% of our R&D is now in the injectable space. So if you could help us broadly understand how big this opportunity can become for us?

Manish Gupta: So I presume you are talking of the APIs because there were six APIs wherein we are the only filers as far as VMF are concerned, is it right?

Ashish Thavkar: Yes, sir.

Manish Gupta: So again Ashish, it is a very difficult question to answer simply because of lack of data in this industry. So none of us know the true size of those molecules in the industry. Also some of those APIs are still under patent. So already we are seeing traction as far as companies approaching us for their formulation development. But very difficult to give you a guidance in terms of what numbers it can generate for us.

Ashish Thavkar: Okay and if you were to monetize these API opportunities, would we be having enough formulation injectable capacities with us?

Manish Gupta: Absolutely.

Ashish Thavkar: And what is the status in Europe now as far as these facilities are concerned?

Manish Gupta: We have two facilities in Europe. One in Germany which is injectables and another one in Spain which is an oral facility. And obviously they have all the necessary EU approvals.

Ashish Thavkar: Okay and sir, in regards to earlier participant question where you said we are 15 months to 18 months away for that US launch. Is it something to do with the Germany facility? Does that facility need to have USFDA inspection and then approval?

Manish Gupta: Absolutely. And the reason obviously is in the current environment inspections are not going to happen in a jiffy or in a quick time.

Ashish Thavkar: Just one more from my side. There are few other companies which have Progesterone approval and they are talking big about this. So pardon me for my ignorance. If we are not there in that molecule, did we at some point in time in the past happen to evaluate these?

Manish Gupta: That is not an animal health molecule, it is a human Pharma molecule. We are not in that space. It is not our area of expertise.

Ashish Thavkar: And sir, anything on obviously the kind of EBITDA margins, just one last question from my side. The kind of margins that we do and if I try to see what our peers are doing, would you like to guide us directionally as far as the margin profile for our company is concerned?

Manish Gupta: I think guidance stays the same that we have been looking at mid-teens revenue growth and 200 bps margin improvement year-on-year in medium term. And we stay kind of both confident and committed to deliver those kinds of numbers.

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

Bharat Sheth: So sir, I mean the way you are saying this with new promoter coming in so medium term our strategy remains the same for next two, three years post that they will have some kind of a change in the strategy. Is that fair understanding?

Manish Gupta: No, that is not a fair understanding. What we are saying is see fundamentally given the nature of industry that we are in - pharmaceutical or a regulated industry, any action that anybody takes will take minimum two to three years to fructify. Further, we are not looking of a change of strategy, we are only looking at broadening our vision or enlarging our vision which may entail certain bolder steps.

So if we were looking at US acquisition, of our own we could have looked at a $10 million or a $20 million transaction. Obviously with Carlyle it gives us the ability to look at a bigger transaction. So that is the kind of changes I foresee with Carlyle coming in the picture. And anything that we undertake with under the new shareholding structure is therefore what I am saying is any changes will only impact medium to long term and nothing in the short to medium term given the nature of the industry we are in.

Bharat Sheth: And sir, any strategy to enter in the Chinese market?

Manish Gupta: Yes, so this is again part of the work that we are doing with Stonehaven and based on what comes out of it because we have no expertise or knowledge of that market. And we will be guided by Stonehaven and/or Carlyle Group on our strategies for China. Simply because it is the second largest animal health market in the world.

Bharat Sheth: The kind of growth we are looking at so what kind of a CAPEX we have to incur for next couple of years?

Manish Gupta: So there are two elements to our CAPEX which we have been guiding to. One is our expansion at Vizag plant which we are scaling up. The first phase will be is running a little late but should be completed sometime in early Q4 of the current year. And the second phase will be completed next year. Between these two phases we will be good enough to deliver our business requirements as we foresee for next three to four years and collective investment will be about $10 million in this.

In addition, we are looking at an expansion at Bremer for our injectable footprint. That was more to do to cater to the US market. That is one project which is running late because of the current situation in Europe because it entails or involves the cross border execution of projects and that is something we have deferred by minimum 6 months to 9 months and it will have a total CAPEX outlay of about €3 million.

Bharat Sheth: Sir, with the kind of guidance you are giving on the topline and EBITDA margins so when do we expect I mean to cross 20% of ROCE and ROE?

Manish Gupta: So I think on ROCE front if we do our first half annualized we are already touching 20% and we certainly obviously would like to improve from there and not allow it to dip. ROE honestly we have not done any calculation yet but we will look into it. But as far as returns are concerned we are highly motivated by that aspect of business and we continue to track our business on the right way.

Bharat Sheth: And sir, last question from my side. What will be the ETR will be there for next two, three years?

Manish Gupta: Yes, Tushar?

Tushar Mistry: So ETR we have been guiding at around 18% to 20%. You will see in the first half the ETR is slightly higher. But that is purely because in some geographies we pay our taxes in advance and wait for the assessments to get over and get those credits back. But due to the current situation some of those credits will be delayed. So we may see a year of abruption here but on a long term basis we should remain within 18% to 20% kind of tax rates.

Moderator: Thank you. The next question is from the line of Aakash Manghani from BOI AXA Mutual Fund. Please go ahead.

Aakash Manghani: Lot of the questions what I want to ask were already asked. But I have a few additional ones. Could you just talk about the CDMO opportunity in a little bit detail you mentioned in the PPT that side on with the particular animal health line? Could you just talk about what sort of market that we can explore over the next couple of years and what are the other players in this market who are doing a sizeable sort of revenue and what sort of profitability that this segment operated? Some broad strokes about the same? That is the first question.

Manish Gupta: So Akash, as I mentioned in one of my earlier responses we are very new to this business and we are yet to scope out the contours of this business. So give us some time before we can come out with the guidance as far as the opportunity is concerned. It is not a very well defined industry per se separately from human Pharma. So currently most of the CDMO work for animal health business is undertaken by companies who do both animal health and human Pharma work.

But going forward there is a need of segregation and that is what we are getting kind of fillers from our customer and that was the reason for this foray. But give us sometime before we can come back to you with a more specific answer as we are currently engaged both in learning this business and also engaged with Stonehaven in sizing this business.

Aakash Manghani: The next is on this injectable generic that you plan to launch in Europe, you mentioned that there are 13 other competitors in the market right now who filed for the generic version. A couple of quarters back you have mentioned there were two or three competitors. So does that mean that the profitability that you had envisaged, the pricing that you had envisaged earlier could be materially lower because of the hyper competitive activities that you may see in this segment?

Manish Gupta: Yes, so if you would read our earlier commentaries I have been always very clear that this particular molecule will be a game changer in animal health and may not be as big an opportunity as people may think it is. So in a way we are proved right given the number of competitors. Having said that we had never taken it as a big part of our business plan because for us it was a learning exercise and most of us come from human Pharma so we are aware of the hyper competition that exists and anything big always attracts much attention.

So in our business plan to be candid it does not make much of a difference. We had kept very small numbers for ourselves. But yes, it will be a good wake up call for many of the animal health guys who are not used to seeing such kind of competition.

Aakash Manghani: So when you say game changer I mean if you are not building in a lot of revenue from this particular line of business, a game changer in what sense in terms of showcasing your abilities to your partners that you also have it and you also sort of get the technology in place to compete with the biggies? Could you elaborate on that?

Manish Gupta: I was saying this product will be a game changer for the industry in terms of how competitive dynamics play out. It was not a game changer for us. Having said that it has demonstrated our ability because this was our first filing in Europe from India and we got a DCP approval in 11 months which is a very good reflection of our development and also our regulatory capabilities. So for us it was kind of a validation of our capabilities and for the industry given the size and scale of the molecule it was kind of effectively a new learning of seeing hyper competition.

Aakash Manghani: Lastly it has been a couple of quarters since Carlyle has come on board and it has got a new board in place, so congrats on that. So what are they now looking out for from an annual milestone point of view what are the kind of things that are expected out of the current management in terms of deliverables? What has changed? What are they emphasizing on? Some flavor if you can talk about?

Manish Gupta: So I just needed to correct, it is not couple of quarters, it has been couple weeks. Carlyle has been on board I think from early September.

Aakash Manghani: I mean the transaction, sorry. I mean the transaction that was announced I think two quarters back.

Manish Gupta: Yes, transaction was announced but they took charge of the company only from 8th of September. Somewhere around that when they took the majority stake. So it is still early days. It is still honeymoon period as I would like to believe. So we are yet to gauge each other. We have just completed our first board meeting today with the new board which includes both Carlyle nominees and also certain industry stalwarts.

Clearly as a management team and also the Carlyle shareholding team all of us are excited by the unique opportunity that we are setting on in creating a global animal health business from India. But you will need to give us some time before we can share the new vision for SeQuent 2.0. However, I can assure you it will not be very different but a little bolder than what we were in the past.

Moderator: Thank you. The next question is from the line of Sharan Pillai from Allegro Capital. Please go ahead.

Sharan Pillai: I had a couple of questions. First one is in terms of the key injectable that we have. So when you are saying that 13 to 14 approvals across Europe, are you expecting 13 to 14 competitors on the day one launch or do you expect this to be sort of spread out across a few months or a few quarters?

Manish Gupta: Difficult question to answer because obviously we do not know how competitors are working on it in that sense. So when we say 13 approvals, it does not mean all companies have approvals in all the countries. It can be country specific approvals or can be multi country approvals as per their strategies. Also some of them are linked with common manufacturing so there are going to be challenges. None of us know how many products will be there on day one of the launch but having said that it will be certainly far more competitive than any other product that has genericized in the past.

Sharan Pillai: My second question was in terms of the CDMO business our earlier may be few quarters ago we had mentioned that we had initiated our first few contracts and had a proposal for around a dozen products that we were evaluating. I just wanted to ask whether you have added any or you have received any more proposals or initiated any more contracts? So what is the strategy so far?

Manish Gupta: Yes, I will ask my colleague Sharat to respond to this because he is the one driving it.

Sharat Narasapur: So the first couple of projects which were initiated have fructified in terms of award. And out of that one product is already delivered and the other one we are on the way to be delivered. But there is also a portfolio of 10 products which we are working on. So that being the status. We see a very good traction there. But it is too early to say. We are in our infancy in that part of the business. We need to see how it tracks.

Sharan Pillai: And just a follow up on that. Have you seen a greater amount of enquiries coming or what is the status in terms of client engagement that had taken place?

Sharat Narasapur: So see as Manish was describing the whole CDMO business, in animal health space it is just a start and there is one company which is very keenly working with us but we expect that the others also will follow this model sooner or later. Just for the reason that the contract manufacturers who were manufacturing for them do both animal drugs as well as human drugs. And in future there is a separation or segregation which is required. So we see that, that happening in near future.

Sharan Pillai: Just one last question. In terms of India, we had in the last quarter that we were facing some issues in terms of collection from stockists and retailers etcetera and had expected it to increase in Q2. Has that increases taken place or is it that is still something that we are dealing with it at the moment?

Manish Gupta: No, we were not facing any challenges, but we were being cautious in terms of the way we were conducting business. We are a disciplined company in that respect and that has been our strategy which has worked out well for us.

Moderator: Thank you. The next question is from the line of Akash Jain from MoneyCurves. Please go ahead.

Akash Jain: Two questions. One is just a quick follow up on the earlier question in terms on the India business. Like you rightly said we were a little cautious of the India market given the credit scenario. Is the business now completely back to normal or there are still some way to go before we can say that things have normalized completely in India? So that is the first part.

Second part is on the rising cases of COVID in Europe and if I am not mistaken we really did not have that much of a disruption when the first round of cases happened in Europe? So can you please share a little bit of what has happened earlier and how worried are you about rising cases now in Europe because now we have sort of an understanding of what happened earlier so we are probably better to clarify?

Manish Gupta: So your first question was around India and I can certainly say that India is almost back to normal. We are a more of a rural kind of industry so we were obviously off the ground much earlier than the rest of the country but certainly India business is more or less back to normal excepting for the travel part because the field force till cannot travel freely and they have their own ways of contacting the doctors and the customers. That is as far as India is concerned.

Your second question was on Europe. Certainly the second wave of lockdown is less severe than the first phase. So it is more like a night time curfew but travelling otherwise within the cities and all are allowed. Again at the cost of reiterating our animal health industry comes under essential industries and therefore does not get impacted by any lockdowns or restrictions. So excepting for the stray cases that we will face in our own operations which may have an impact, we do not see any challenges.

Akash Jain: The acquisition that we have completed in Turkey, has the benefit of minority interest being completely absorbed or is it only for part of the corpus that we need to get the benefit of the consolidation from Turkey?

Manish Gupta: The acquisition has been completed only in early November. So consolidation has not been undertaken in the last quarter financial results. Excepting I think the liability part. So Tushar, if you can explain this?

Tushar Mistry: So on the financial P&L front the minority for Q2 still has the minority for Turkey. But what has been accounted is the liability for acquiring that stake because agreement was already entered by that time. And the liability for that was recognized. The consolidation of the minority stake at the P&L level will start happening from November onwards as Manish explained.

Akash Jain: And like Manish said we sold the stake in Strides but we still continue to hold some stake in Solara, right?

Manish Gupta: Yes, that is right.

Akash Jain: And is there a plan for that as well in the sense in the near future or that is something that you will wait and watch?

Manish Gupta: Wait and watch.

Moderator: Thank you. The next question is from the line of Raj Rishi, an individual investor. Please go ahead.

Raj Rishi: Can you just elaborate on the India advantage in the sector?

Manish Gupta: This one question we have responded to multiple private equities who were engaged with us that this is not an India cost advantage sector and it is a knowledge arbitrage that we are working on. So except for our API business which certainly has the cost arbitrage and more than cost arbitrage the technical knowledge arbitrage of India, otherwise it is fundamentally a knowledge arbitrage business. You will see in our own unique business model almost of our formulation units are actually not in India.

Raj Rishi: So in India you just have the API part, right?

Manish Gupta: That is correct from a manufacturing perspective. Also, formulation R&D is in India and of course a large part of management think tank is in India as also in Europe.

Raj Rishi: Just share this perspective if you can like is it reasonable to expect a 2x, 3x kind of revenue is still coming from this company given what the opportunity you see and your skill set?

Manish Gupta: In what period of time?

Raj Rishi: In over a period of time you can say over a period of time say three years to five years can you share some perspective like is it possible to grow like 3x in 5 years, 7 years? Does that opportunity exists and do you have the skill set to tap into it? Like if you can share your perspective?

Manish Gupta: Yes, so I will split my response in two buckets. Certainly as an industry there is a huge headroom for growth. Having said that it is a branded generic industry and therefore market share gains are always slow and steady.

So it is not something that we throw some money or hire more people and then we can double our sales quickly. So trying to grow too fast is sometimes dangerous in this industry given that in a branded generic industry unless there is a consumption, the material will otherwise come back over a period and that too as an expired material. So that is why you will notice that we have been always guiding to a mid-teens growth and not a very substantive growth because even growing at that rate we are more than growing double than the industry growth rates.

The second element off course is acquisitions. That is something which can certainly help us scale faster and there will be obviously an added area in the next phase of growth given the Carlyle expertise.

Moderator: Thank you. The next question is from the line of Rajamohan V, an individual investor. Please go ahead.

Rajamohan V: My query is first with Carlyle. You have indicated to capabilities being bolder and bigger in the initiatives. Congratulations on the Stonehaven initiative. Though it is early days, apart from bigger acquisitions which could be driven by Carlyle, would we be seeing a further meaningful entries in filings as compared to the past as we have seen animal health is a small per product industry. Also trying to understand whether we could head towards market leadership in some formulation products over the next three to five years?

Manish Gupta: Yes, certainly I think our next phase of engagement both with Carlyle, the new Board as well as Stonehaven is towards identifying more opportunities and while acquisition is one part of it obviously the engagement is way beyond acquisitions and looking at both products and/or markets and also the connects of Carlyle team. So certainly you will see a small incremental increase in all the areas that we are focusing on.

Rajamohan V: Okay so apart from the acquisitions there exist a possibility of the company growing at the topline higher than the mid-teens that it has promised apart from the acquisitions too because you will have more filings and in all areas you will be having incrementally more impetus post Carlyle?

Manish Gupta: That is correct. But I must warn you that none of these can fructify in the next two years.

Rajamohan V: On the Stonehaven front by when would you expect an output in the form of a report and hypothetically even without any change in management what are the previous estimate of say breaking into the top 10 from the current top 20? By that and putting together the bolder initiatives with the new management we could surmise the new timeframes in terms of possibilities of you reaching the top 10 within what time frame?

Manish Gupta: Difficult question but let me try to address it. Based on our own business plan, we were targeting to get into top 15 in the next four years' time. Clearly the gap between our current stage versus top 10 is very significant. There is a huge scale difference to get into the top 10 and on our own we have not envisaged that. Now as far as Stonehaven is concerned it is between 4 months to 5 months engagement.

So sometime towards February or March is when we will have a better visibility in terms of the way ahead and that is the time when we will be able to give a better answer to your question in terms of whether it is worth even chasing getting into top 10 because while scale is good, it is not necessarily the best for the shareholders. And which we will be I mean the good thing is that Carlyle is a shareholder. They are here for obviously making money. So in a way their interests are aligned with the rest of the shareholders.

Rajamohan V: Final question. Based on the COVID experience you have indicated to your ability to maintain a reliability which has been noticed by your customers. Has it lead to some sort of a further consolidation in the industry for your benefit?

Manish Gupta: Yes, again it is early days. Nobody takes such decisions so quickly. Having said that when you prove yourself as a reliable supplier in tough times clearly that stays and we do foresee us becoming more and more important for our customers as we go along.

Rajamohan V: Manish, I would like to end by really being amazed by the kind of balance you maintain and steering the ship in such a really seamless fashion. So hearty congratulations on that and keep steering the ship in this robust predictable fashion in the future.

Manish Gupta: Thank you, Rajamohan.

Moderator: Thank you. We will take the last question from the line of Niraj Mansingka, an individual investor. Please go ahead.

Niraj Mansingka: I just had a question on the India's relationship that you have with Zoetis which started last quarter. Can you give some color on the potential of Indian market and how large it can be for you as the opportunity and any thoughts on how you are planning to achieve? And the second question is on the Vizag plant expansion. Anymore color on how the expansion of Vizag and Mahad will lead to your potential addition in your new markets or opportunity in the revenues for your company?

Manish Gupta: Yes, I think your first question was around Zoetis arrangement in India?

Niraj Mansingka: Yes.

Manish Gupta: Which has just been initiated. Clearly it is an important arrangement for us as far as our India business is concerned. Of course in a global scheme of things, it is not a very material number. So in a way in India, we will effectively double our revenues because of this arrangement. But as I said in the global scheme of things emerging markets which includes India is not that significant and should not have a meaningful impact.

Having said that it is a step in the right direction because when you combine or join forces with the largest in the world it clearly opens up lot of new doors for you and also opens up how people look at you very differently. So that is what we will be using even as we leverage our own business through the kind of brand equity that they have in India.

Now coming to your second question around Vizag and Mahad expansions, that obviously is part of the growth that we are kind of alluding to on the API side of business. We have been maintaining early 20s growth rates in our API side of business. That will of course over a period entail or require certain capacity additions and our expansions in both Vizag and Mahad are towards achieving those required volumes in FY22 onwards.

Niraj Mansingka: And one last question if I may. Like you plan to sell APIs in the US market and at the same time launch formulations. So how do you see the growth coming in because you are extremely competent in those players in the formulations and as well as supplying the raw material. Or can you give some color on about this product you have?

Manish Gupta: Yes, so there are two, three aspects here which I would like to respond with. First is cooperating and competing is a fairly accepted phenomenon in the Pharma business which also includes both human and animal health. So every Indian company or global company has both APIs and also formulations. Right from DRL to Teva everyone.

So it is a very standard accepted model. You do not get in to conflicts unless you are challenging patents. And there are hardly any patented products in animal health. So the conflict if any that exists is even more limited in animal health space.

And the third is of course our formulation strategy is not a forward integration strategy with our APIs. Our formulation strategy and API strategies are very, very independent strategy which we have been telling right from day one that we are not seeing API as a cost arbitrage strategy for our formulation business. API is a separate business vertical for us with its own growth engine.

And not all our formulations that we are developing for US are based on our APIs. So for us we see no challenges and/or conflicts as far as our either US business or any other market is concerned.

Niraj Mansingka: So when do you see that scale up in the API in the US market?

Manish Gupta: We are already seeing the scale up as far as US market is concerned. We have done 20 odd filings in US as far as APIs are concerned. Already 7 of our veterinary VMFs have been accessed by the customers. And this is the number which is growing every quarter.

Moderator: Thank you. I now hand the conference over to the management for their closing comments.

Manish Gupta: Thank you very much. In conclusion, I just wanted to say that we stay confident of our industry, our own business plans and also our execution capabilities. And currently stay engaged with our new shareholders and experts to define a new vision for ourselves. I will come back to you with the exact condors of SeQuent 2.0 once we are ready. Thank you everyone. Thanks for joining us for this call and please stay safe.

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