“Sequent Scientific Limited
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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2022 Earnings Conference Call of Sequent Scientific Limited. 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 Rituja. A very good morning and thank you for joining us today for Sequent Scientific's Earnings Conference Call for the second quarter and half year ended financial year 2022. Today we have with us Manish Gupta – Sequent 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 that have been uploaded in our website as well as our 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 Manish to make the opening comments.

Manish Gupta: Thank you, Abhishek. Good morning, everyone. I welcome you all to our Q2 earnings conference call. Joining me on this call are Sharat Narasapur, our Joint Managing Director, and Tushar Mistry, our CFO.

Before I come to the business and earnings aspects, health and safety of our employees is core to our values, and I am happy to share that over 99% of our workforce is now fully vaccinated with rest 1% to be vaccinated during the month as they become eligible for the second dose.

On the business front, while the numbers were muted compared to corresponding quarter, it is heartening to see that we recovered well in comparison to last quarter with a ~10% growth. This was aided by a healthy 21% growth in API business in comparison to Q1 FY22 while our formulation business continues to deliver consistent growth across geographies. Even though the industry at large is facing challenges due to rising input and logistics costs, we have undertaken steps across the business to mitigate the impact and we expect these to start reflecting in our margins in the coming quarter with full benefit from Q4 FY22.

We faced multiple challenges on the margin front due to cost pressures and sudden energy crisis in China. Our businesses in Brazil and Spain, which have a greater dependence on antibiotic API purchases from China, faced significant margin pressure due to a sharp increase in input cost. While we have initiated steps to pass on the incremental costs, there is a lag, and we expect sequential improvement in margins and expect to achieve normalcy from Q4 onwards. There was some decline in the API margin, partly on account of cost increases and balance on account of product mix. We are also looking at our costs aggressively and have initiated significant programs on process and yields front.

Now, let me discuss the performance of each business segment in detail.

On the API business, as you can see from the numbers, challenges on the demand side are gradually reversing as we witnessed a sequential growth. We expect the growth to accelerate in the coming quarters. We are seeing muted sales of Albendazole for last couple of quarters largely due to slower offtake from WHO (a major consumer of the drug used for deworming amongst school children). With schools now re-opening, the WHO demand is slowly coming back. The rest of the portfolio grew over 25% in the quarter.

We continue to track well with a steady high single-digit growth on the formulations side. We did reasonably well across geographies, with Latam & Turkey leading and Europe back on track with a ~10% growth. India's growth was subdued at 4%, largely on account of the base effect of Zoetis commercialization last year. Emerging markets were slow, and we continue to maintain a safe approach in these geographies, more so in the current heightened volatility scenario.

Strategically, we are adding new growth engines with several initiatives to expand our offering to include vaccines in India and Turkey and the recently concluded long-term agreement with a top-10 animal health company. All of these shall contribute to our revenues from FY23.

As mentioned in the last call, we are pleased to welcome Alexis Goux in the organization as Vice President Commercial to spearhead our formulation business. Alexis joined us on 1st September and brings in over 20 years of experience with leading companies like Virbac and Ceva having led business in multiple geographies including Europe, LATAM and South-East Asia. Alexis has hit the ground running and is currently driving our strategic initiatives around UK and Germany, both of which should see commercialization in the coming year.

We continue to make progress in our inorganic initiatives and expect some new growth engines to be added in the second half of the year. To conclude, despite a challenging first half of the year, we look at the second half of FY22 with confidence as we start reaping benefits of our recent actions and deliver a near double-digit growth despite a flat API business for the year which will see a sharp recovery led by a strong order book for H2. Business should be back on strong growth track from FY23 supported by some of the initiatives I just mentioned.

I would now like to hand over the floor to Tushar to discuss the financials in detail. Over to you, Tushar.

Tushar Mistry: Thank you, Manish, and good morning, everyone. Let me give you some insights into the financials for the quarter. Let me start on the P&L. During Q2FY22, while our revenues were slightly above corresponding quarter last year, the business saw some pressure on gross margins. This was mainly on account of product mix in our API business as also cost pressures and business mix in our Spanish operations. While operating expenses are in line with expectations, it would be important to note that, last year, due to covid restrictions, there were lower sales and marketing activities due to which some expenses like travel and marketing spends were curtailed. As things normalize, we see these expenses normalizing again, however, concerns remain on logistic costs due to timely availability of containers and vessels.

The overhang of ESOP cost continues to be there even though it is a non-cash expense. As mentioned in our Q4 call, the charge will taper off slowly, with initial quarters facing the major hit. You would also recollect that last year our effective tax rate was higher as assessments in some geographies were delayed due to covid. During the quarter, we saw the closure of these assessments resulting in reversal of provisions made for prior years. Let me now give you some insights into the balance sheet position. We saw an increase in the API inventory as we prepare for improved demand in the second half of the year, resulting in higher working capital as well as our net debt position. We are in process of closing the consolidation of the minority stake in Brazil and expect to complete the same during the current quarter. We do not expect any significant impact on the liabilities accounted as of 30th Sep 2021.

Finally, I wish you all a very Happy Diwali and a Prosperous New Year. Thank you.

Manish Gupta: So, we can now open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Manish Gupta from Solidarity. Please go ahead.

Manish Gupta: Good morning and thank you for the opportunity. I have two questions, the first one is, how much of the, you know you said, the API business will roughly be flat for the year, how much of this would you attribute just to inventory normalization in the supply chain and what percentage of this would you attribute to more competitive intensity from China, that is my first question, the second question is that you know given what is happening in Turkey, how are our long-term growth plans for using Turkey as a sourcing base for other geography affected by any risk that if the Turkish President starts acting tougher on diplomats, how much of our growth plans would be impacted by Turkey as a supply base? Thank you.

Manish Gupta: Thanks, Manish, very, very interesting questions and I think you have hit the nail on the head. Now coming to your first question, the API business. The entire dynamics that is playing out in our API business is purely coming out of the supply, we are not facing any competitive pressures either from China or any other player and that I think is one of the strengths of our business model, the only challenge we have is on an account of two things, one there was a potential built up of some of the APIs undertaken by our customers last year and so therefore they are kind of now aligning their inventory and second is which I had mentioned, there has been a slowdown in the albendazole sale, which is one of our larger products simply because WHO, who is the major consumer of this formulation, as they distribute this product across school students for de-worming in Africa, with schools being closed for almost a year, this demand was subdued and therefore this led to a shortfall in demand for albendazole. Both these aspects are now reversing and therefore we are seeing continuous built up in our API business. The sequential trend has been encouraging which is perfectly visible from the fact that Q2 has been better than Q1 and considering the order book we have as on date, we are guiding to a flattish API business despite having a 10% or a little over 10% decline in H1 which means that clearly H2 will see a growth vis-à-vis last year and also growth vis-à-vis H1 this year. So we are very confident of a strong rebound in our API business more so in FY2023 because there we will benefit from a normalized sales through the year plus some of the new initiatives, which I have mentioned especially the new multi-year contract that we signed with another top 10 company that should come in very quickly and FY2023 should see a significant spike coming from that contract, that is as far as API business is concerned. Now, coming to Turkey, for us Turkey is a made in Turkey for Turkey business models. While we may have been exploring exports to emerging markets and European regions from the Turkish subsidiary, the recent currency depreciation makes it even better and makes us more competitive in that aspect. The only risk or challenges remains on the diplomatic relations side of Turkey on which we have no control. Having said that, Turkey business has been outperforming business for us, we continue to benefit from close to leadership position in the local market and we are very confident of maintaining more than double digit growth in the local markets by itself. Yes, we will closely be watching the entire political development, but I will not be unduly worried about it as far as our Turkey business is concerned.

Manish Gupta: Manish, if I may ask a follow up, given the weird economic policies that the President is proposing that is you have to reduce interest rates to manage inflation, is there a risk that we are putting and I am not talking about local business of Turkey, I am really talking about using Turkey as a base for your global foray, do you think that Turkey may not be the right location, geopolitically to use as a supply base?

Manish Gupta: We are tracking this development very closely, we have always been cautious in using Turkey as a global base for our supplies, so fundamentally it does not change any of our plans and you would also notice that we have increased our investments in Germany to develop it as our global base especially for injectables, so honestly it does not impact our business plan at all, at best there would be a couple of percentage change in the outlook for just Turkish business that too from the emerging markets, otherwise I am not at all worried strategically because we never looked at Turkey from a global sourcing angle.

Manish Gupta: Excellent. Thank you so much, Manish.

Moderator: Thank you. The next question is from the line of Soumya Ranjan Senapati from HCCI. Please go ahead.

S. R. Senapati: Actually I saw in the results yesterday that you are having a cautious approach towards emergent markets; can you elaborate on that front?

Manish Gupta: So, major part of our emerging market business consist of African markets and a very small component is the Middle East region. Selling in these markets is never a problem, however collection remains a challenge. Therefore in times of heightened volatility, the availability of currencies in these markets remains a cause of worry as it is controlled by the central bank in these geographies, so therefore we continue to be cautious as far as these geographies are concerned because we do not want to take any payment risk and only do business on more or less either on advance payment or LC basis, that is why you will continue to see volatility in our emerging markets business and that is by design because we do not want to push and take high risk in that part of the market. Does that answer your question?

S. R. Senapati: Yes, another follow up if I may ask, is like we are seeing the profit and loss statement is not that good from the last couple of quarters, so how long it will be a continuing the same and how likely are we going to see the reversal?

Manish Gupta: Again, a very valuable question and certainly very important for any investor. Clearly, I would say this quarter was a profit storm because there were pressures on the cost side, on both logistics and material cost, demand was slightly subdued, there were enormous volatility across currencies especially in Turkey and Brazil and all of these significantly impacted our margins. With flattish sales, you would have seen that our gross margins dropped by about 5% and our operating cost went up by about 10% leading to the overall reduction in gross margin for the business. Qualitatively, I can assure you that there is no deterioration in business, in fact we continue to be uniquely positioned in all the markets where we are, especially in our API business. Some of the actions that we are taking and have taken both on increasing the prices as also aggressively tackling the cost will start showing results from Q3 and full benefit will start accruing from Q4, so as of now I have reasons to believe that Q4 onwards we should be back on our growth track as far as margins are concerned.

S. R. Senapati: Thank you.

Moderator: Thank you. The next question is from the line of Aditya Khemka from Incred Asset Management. Please go ahead.

Aditya Khemka: Good morning and thanks for the opportunity. Manish Sir, three questions, firstly you mentioned in your remarks that Turkey currency depreciation actually makes you more competitive yet in this quarter despite the depreciation we have seen an adverse impact, so is it be completely the Brazilian currency that has made you lose so much gross margin?

Manish Gupta: You want to complete all the three questions or should I take one by one?

Aditya Khemka: Take one by one, Manish.

Manish Gupta: The pressure on gross margins has nothing to do with the Turkish business, it is more to do with two matters, one is pressure on margins in Spain and Brazil, which is coming from higher API cost because most of these APIs that are consumed in these markets come from China given that these are oral antibiotic markets. The other part is, the business mix, so you would have noticed that the share of API business in the overall business mix is down and within API also the product mix, all of these have led to, so there is no singular reason for this drop, it has come from all the areas of business, but largely it has come from the three specific buckets, Spain and Brazil is the largest in impact and some impact coming from the API business.

Aditya Khemka: Thanks for that and just wanted to understand, question related to the fabric of the nature of our business, so like in human Pharma we have chronic and acute drugs is that case similar to Adamant Pharma, do we also have chronic and acute?

Manish Gupta: Fortunately or unfortunately no, animal health is a very basic market in that sense because 60% of the world market is for commercial business, it is driven by meat and milk and rest 40% is the companion animal business, which is obviously more emotional or emotive in nature. So largely it is more acute market, negligible of zero and close to zero component of chronic diseases though I must admit that this is now coming up especially in the pet animal segment, so the real way of looking at this market is segregation between companion animal and the production animals rather than chronic and acute.

Aditya Khemka: Understood, but at the same time given that majority of the market is acute, let us say 90% to 95% is acute because these are given to different animals, once they are at a certain stage then in that case in COVID we saw a huge consumption of drugs forming for humans because people were not stepping out of their homes. For animal health care I do not know how this would play, so just wanted to understand was the volumes last year lower than what they were supposed to be because of COVID or was there any impact of COVID in the volumes last year or any impact of COVID this year any, if you could give us some sense on how COVID impacted volumes in the business?

Manish Gupta: So, fortunately as I said, a major part of the market is driven by commercial animals and people do eat whether they are in-house or outside the house, so there was no change in demand as far as protein requirement was concerned and therefore there was no impact on the animal health market. Of course, there was a benefit on the companion animals' side of the market simply because, as people were stuck at home there was an increase in the people adopting more pets at their homes. So that part definitely benefited as far as structure of the market is concerned, but there was no adverse impact on the production animal side of the business, does that answer your question?

Aditya Khemka: I just have one last question I have, when you are selling API to your customers right, so last year when you are selling them API and this year as you continue sell to your customers, is it possible for you to know why you are selling that this is an over order and therefore this is the customers trying to build up inventory or do you only come to know post facto, in the next quarter the customers does not place an order?

Manish Gupta: This is unfortunately one of the problems of our industry because in absence of any database or information, we are only relying on customer information. We do not have any historical trends except our own internal trends, so unlike in Human Pharma wherein there is a kind of a complete transparency, there is nothing in animal health and therefore it is both a challenge and an opportunity because lack of information is not only true for us, but it is also true for our competitors, so in that sense I must admit that it is only a de facto analysis and not something which we can gauge beforehand.

Aditya Khemka: Understood, so the way you are gauging the fact that there is inventory de-stocking happening at the customer end today, is that a customer would have placed order for 100 units last quarter, is placing an order for 30 units this quarter and you went back to him and asking why are you placing 30 units to them whereas you had placed 30 units last quarter and he has informed you that he has 60, 50 units of inventory already lying with him, so that is the reasonable understanding of what is happening?

Manish Gupta: Yes, largely reasonable but obviously they never tell you this clearly, see typically we get an annual forecast with quarterly orders from all, all our business is regulated market driven by long-term arrangement, almost 75% to 80% of our API businesses is like that. So we get fairly detailed forecast from our customers for one year with a firm commitment for one quarter so what they typical do is, they will shift demand by one quarter and then when you engage they will give you some colour around it, but they will never be so open about it that I built up this inventory and I am carrying so much stock all that kind of information obviously is very commercially sensitive and nobody would like to give.

Aditya Khemka: Sure, at any given point in time you have visibility, or you have an understanding of what your next 6, 9, or 12 months of order book looks like given that your customer give you an indicative budget of what he wants from you over the next 6 or 12 months?

Manish Gupta: Yes, that is correct, that is true for about 80% of our revenues as I mentioned which are driven by regulated market and long term because we are part of their filings technically.

Aditya Khemka: Understood, Sir, I may have a couple more questions but I will come back in the queue, thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Dhruv Bhatia from Sixteenth Street Capital. Please go ahead.

Dhruv Bhatia: Good morning, Sir. Sir, I have two question, the first one is, in the presentation, you talked about the supply arrangement, could just talk more about the contract and whether this arrangement is a longer term arrangement, is it a new API that you are looking to supply to them, and what made them to give away the other players in the markets, is it clearly on price that we are offering that is question number one, second question, you did talk about API's growth being flat for the entire year, is that confidence coming from as and when the demand is coming or is it more from the other product market which we are looking at strong recoveries?

Manish Gupta: So, let me respond to the extent I can because I cannot disclose too much sensitive information or commercially sensitive information about the new arrangement that we have made, but it is one of our newer products which has been validated and commercialized a year or two back. The customer demand is largely for the US market and in the second year of commercialization it should contribute over 10 million of our revenues us. Now coming to why they are shifting to us obviously it is their prerogative, but we believe we are very well placed on this molecule that was the reason we developed it, other than one competitor or two competitors in Europe who were historically there in this molecule, there is no other competitor. So we clearly have a long-term strategic and competitive advantage as far as this molecule is concerned even if others were to come, it will take them at least a year or two before they can reach where we are today. Having said that, the reason we got this order is not on price, in fact we are same price or even higher than the current supplier but is more around supply chain security as we are significantly backward integrated on this molecule, and we have done a lot of work to achieve it. The engagement has been almost for a year before conclusion, so you must understand the diligence that the customer would have done in terms of supply chain security for them to move such a large volume of a fairly expensive API to us, so that is I think broadly the answer to your first question.

Dhruv Bhatia: API's projection of large growth for the year is it more from albendazole sale, is it ex of that where you are expecting, what give you the confidence with this flat 5% to 10% decline in H1?

Manish Gupta: So, it comes from three sets, one is obviously we are seeing recovery in albendazole which may not come back to full normalcy but there is a recovery, already we are seeing orders building up as WHO is releasing more and more orders to the formulators so that is one aspect. Second is the rest of our portfolio continues to do extremely well and has grown 25% in the first half and we expect the growth rates to be maintained in the second half as well considering the order book that we already have and the third aspect is the overall stock built up that had occurred is also moderating and we are already seeing customers coming back, so all these three factors collectively give us the confidence of API showing a positive outcome in second half, making up the shortfalls of the first half, thereby leading to a flattish overall revenue for the year and as I mentioned a little while back to be back on reasonably strong growth track for FY2023.

Dhruv Bhatia: Thank you so much.

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

Rushabh Sharedalal: Thanks for the opportunity. I just have a request if you can patch in Mr. Aditya Khemka in my opportunity I think it will be good because his questions were good, if you can just patch in, in my chance.

Manish Gupta: He has already asked the questions can we have the next question please.

Moderator: We will move to the next question which is from the line of Manish Gupta from Solidarity Investment Managers. Please go ahead.

Manish Gupta: Manish, one more question, please, that in your APIs of interest of what share of wallet do you estimate you have of the customers' total purchase as of now?

Manish Gupta: Manish, this is a very, very difficult question for me to answer, not for the reason that I want to avoid it but simply because such information is more or less impossible to get in animal health business but let me make an attempt. There are products in our portfolio wherein we are currently the sole VMF holder for US market, so what it means is the innovator may have his own source, but all generic companies are dependent on us at this point of time and even innovator maybe looking to move to us because we are certainly more competitive than his own manufacturing at this point of time, so there are a couple of products in that bucket. A larger bucket would be the second bucket wherein there is very limited competition as that one more API manufacturer other than the innovator and then there is a third bucket wherein, we will have one or two products which are more competitive, so that's the large composition. The reason we always talk with confidence about our API business is not because we are taking competitive position and taking our share of others, we are working with the innovators and gaining their wallet share. So our business model should not be seen in line with the other API companies, it is a very different model simply because we are in animal health space and simply because there are no facilities approved by USFDA in this space, so we have taken a fairly good positioning as far as this business is concerned, the negative side of this is that each of our product opportunity is no way comparable to the larger size of the opportunities that the human healthcare companies play this.

Manish Gupta: The last question is that given that the primary concern of your customers really seems to be to ensure supply chain security and I think we are the only US FDA approved API plant in India at least as of now, how do you see the margin of this business say five years out?

Manish Gupta: Take out these two quarters performance, which obviously saw a dip in our margin the reason I have been so confident about projecting our growth in margins were largely stemming from our API business, it is an amazing business model that we have created I think it will take time for anybody to catch upto where we are, so certainly I stay extremely confident around the margins of our API business except for the short-term pressures which we saw, you would also appreciate that when you are in regulated markets you tend to have price increase in your contract only once a year and you need to honor or respect your customers to that extent, so yes, in the short-term there are margin pressures in the API business, but which will correct certainly from Q4 and thereafter will be back on strong growth track.

Manish Gupta: But five years out, Manish, could this be a 25% margin business given the fact that supply chain security is more important than cost?

Manish Gupta: Manish, you are trying to extract a little more than..

Manish Gupta: No, Manish, that is not fair on my side, I do not want to put you under any difficult over here, one last question from my side Manish, what percentage of our API business are we dependent on starting raw materials from China or intermediates from China?

Manish Gupta: So, it is again a little difficult question, the reason is our own dependency on China has been continuously reducing by our proactive measures and we are down to I think less than 15% last year, this year will be even lower, but the unfortunate part is our own suppliers are also dependent on China, so at this point of time see none of us can wish away China because our direct dependency may be lower, but your indirect dependency is still higher and that is something which will need some structural adjustments for all the countries including India and may take upto two to three years.

Manish Gupta: Right, so would it be fair for me to interpret that three years out the India API ecosystem will not be that reliant on China directly or indirectly?

Manish Gupta: Absolutely, I think everyone has woken up to this stark reality including the governments of the world and there is a significant effort being undertaken in this regard, it is happening quietly not that visible, but you will see a big ramp up in the API ecosystem over the next three years.

Manish Gupta: Thank you so much, Manish. This is very, very helpful.

Moderator: Thank you. The next question is from the line of Manoj Garg from White Oak. Please go ahead.

Manoj Garg: Very good morning to all of you and thanks for taking time out. Sir just to understand on this API contract which we have signed if you can just help us understand that $10 million number which you have spoken just a while ago that percentage will be taken care by us or are we likely to be the sole supplier?

Manish Gupta: I do not think in this quarter we can claim to be the only surprise as I mentioned there are two other European companies who have been historically dominating this product, we have been one of the recent entrants, we filed this about two years back, this is our first significant commercial breakthrough as far as this product is concerned and this I am not even talking of the innovator demand, so the company which we have dealt with is one of the top 10 companies in animal health, but not the innovator of this molecule. We are also in discussions with the innovator, so difficult to say how much share we are getting because that is not an easy judgment, this API is also multiple formulation API in the sense that it is also part of combination drugs with multiple API so therefore makes it even more complex, but I would believe that we have a very competitive position especially coming from the supply chain as far as this API is concerned and that is the reason why this company and also the innovator are looking to deal with us.

Manoj Garg: That is great and just maybe based on the topline sales for this product, what could be the ratio of the innovator versus the generic company in terms of sales so that I think we can have some approximate idea of that could be the opportunity side for the product?

Manish Gupta: So as I said the challenge here is this goes in multiple formulations, it is not a single molecule I mean there is a single molecule formulation also and it also goes as combination drug, animal health has combination drugs because of the nature of this industry, so therefore it is difficult to gauge, but I would guess about this generic company should be about 25% to 30% of the global market in terms of this API, innovator will be still much larger.

Manoj Garg: The second thing I think you also indicated that you have put up a specific team to target the top 10 animal healthcare companies for the API, if you can help us understand that what is your thought process out there and while we have seen one API, but in terms of maybe one has to look at from the three to five years perspective how should we think about this incremental focus on this top 10 companies ultimately helping us to run our API business?

Manish Gupta: Manoj, this will require a little longer answer, but I will give a short answer now and we can have a separate engagement on this because if you notice that our core strategy has been how do we engage and get a larger wallet share from the top 10 animal health companies of the world and we have had some success, but not that deep engagement thus far, therefore as part of guidance of the new Board with the initiatives we have set up a dedicated team because any engagement with big pharma requires a lot of work to be done, it is not just meeting with the supply chain guys there, it is also about R&D quality, many things the entire ecosystem around the big pharma world and that is what we have engaged now, created a separate dedicated team, which will focus on these kind of engagements going forward.

Manoj Garg: Got it and Manish, you have also highlighted in presentation about the vaccine initiatives for Turkey and India, would you help us understand about the kind of initiative and when should we start seeing that were coming in these two territories?

Manish Gupta: So, we are working towards finalizing arrangements for Turkey and for India. The Turkish one will be faster because the products or the company we are dealing with is already registered both as products and plant in Turkey, so that will be faster. The Indian initiative is where we are dealing with the company which is yet to be registered in India, so therefore that will take about 18 months for registration and commercialization, so Turkey should commercialize in FY2023 and the Indian one should commercialize from FY2024.

Manoj Garg: Are you calling out, Manish, like which are the kind of vaccines we have and maybe in terms of the overall addressable market opportunities?

Manish Gupta: No, we are not sharing that information, we still have time and I do not want the competitors to be ready.

Manoj Garg: I really understand and appreciate, just a last question, Manish, like if you look at in the long-term perspective it is always spoken about meeting kind of sustainable growth given that this year is a tough year and probably we may not be having this kind of growth that we have achieved in the past historically and guided going forward, do you think that FY2023 and FY2024 should we able to cover whatever the last year sales we had in this year and helps when one look at from CAGR perspective this would be in that healthy kind of range?

Manish Gupta: At this point of time, I am extremely confident of filling the gap that we have this year by faster growth in the next two years coming from the two significant new initiatives like vaccines and some of the other things that we are doing, so as of now extremely confident of maintaining that medium term guidance over a three or four year period.

Manoj Garg: Sure, thank you very much once again and wish you all the best.

Moderator: Thank you. The next question is from the line of Prateek Poddar from Nippon India Mutual Fund. Please go ahead.

Prateek Poddar: Can you just talk a bit about the formulation business and how do you see that in the medium term?

Manish Gupta: You are talking at gross formulation business level?

Prateek Poddar: Yes.

Manish Gupta: Certainly, we are very confident of maintaining mid teens revenue growth coming from existing markets and some of the new initiatives that we have taken. We have launched Alivira Italy two years back, happy to report that we have now gained traction there and hit the EBITDA breakeven level. In the next 6 to 9 months, we shall be launching Alivira Germany and Alivira UK, these will be additional growth engines, we are getting into vaccines both for India and Turkey and we are also looking at pet business segment in some of the markets including India, Turkey, and Brazil. So, with a strong portfolio some new business initiatives and certain new arrangements that we are looking at, we are confident of maintaining a mid to high teens growth, the high teens growth should come in the last two years of our strategic plans because that is when we commercialize our operations in US.

Prateek Poddar: How do you build distribution networks this is unlike human pharma, here you need a very influential distribution network right, how do you build up?

Manish Gupta: There are two aspects to the distribution network, one is the network which makes the product available, so that is not a complex one and the second is the network which generates demand, so the demand generation parties where we will be looking to keep investing now that is way the choice of business which is production animals makes it easier for us because production animal does not require very large field forces, it requires more strategic and limited field forces and that is what we are good at.

Prateek Poddar: What about pet animals which you are targeting, how do you build over there the field force because that is also focus area right to you?

Manish Gupta: So, if you look at the focus area for pet animal business is only three markets, which is India, Brazil and Turkey and that is where you target the big cities, so you do not need to spread too thin, there is no rural market as far as pet is concerned, so you target big cities which is good enough and therefore you do not require too much of a headcount.

Prateek Poddar: Got it, thanks.

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

Hardik Bohra: Thank you for the opportunity. Good morning everyone. So, first question is on passing on the raw material volatility to customers, how much time or how much lag is there between us passing it on, how much time it will take both on the API and formulation side?

Manish Gupta: So, there is no straight answer for this, obviously based on the arrangements you have with customers some of which are long-term, and the contracts will provide for once-a-year price revision and some of it is spot or some of it can be once a quarter, so typically between 3 to 6 months is when we should be able to fully pass on the cost increase. You will also notice that we are nearing the end of year and generally some of the large companies follow calendar year concept especially as far as their commercial conversations are concerned, at this point of time more or less we are engaged with all our key customers for passing the price increases, some of it has already occurred and therefore I said some mitigation will occur in Q3, but more or less by Q4 will be done.

Hardik Bohra: Is it possible for you to share, how much of our business is long-term contract in nature whether the pricing cannot be altered before 12 months?

Manish Gupta: See, I cannot give you precise numbers, but we have been always guiding that 65% to 70% of our business comes from regulated and stable customers, so that will give you a good indication of the kind of conversations we need to have with those customers vis-à-vis 30%, which is spot kind of buying, so I think it will give a good indication, but I cannot give you a precise number.

Hardik Bohra: That is helpful, just a followup on this, you know in the presentation you are talking about initiatives taken to mitigate this RM environment apart from price hike is there anything else that we have done?

Manish Gupta: These are also opportunities as one start looking at their costs more aggressively and what we have done is strengthened our technical team, brought in specific teams to focus on cost especially on process on each front so this is something which we have initiated a couple of months back, again it takes time to deliver and I expect some outcomes of that starting this quarter. So we have now created dedicated teams focused on costs far more aggressively than we did in the past and the other things are likes of power and fuel, okay because that is one more area, which has gone through the roof in the last couple of months and we are looking at how do we optimize our boilers and so many other things, so there are no big ticket ideas let me put it this way when you deal with costs, but you have to nudge away from every cost item.

Hardik Bohra: By when do we expect to reap in the full benefit of ~ $ 10 Mn sales coming from one of our new engagements with a top-10 animal health company which was mentioned earlier?

Manish Gupta: Major part will start in FY2023 itself, I would say at least 75% of that should get achieved in FY2023 and FY2024 should be 100%.

Hardik Bohra: Thank you and one more clarification you get India by FY2023 and Turkey by FY2024 that is the targeted commercialization?

Manish Gupta: No, the other way, Turkey will be FY2023 and India by FY2024.

Hardik Bohra: Thank you and wish the team happy Deepavali.

Manish Gupta: Thank you very much and wishing you the same.

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

Bharat Sheth: Thanks for the opportunity and good morning to all of you. Can you update little more on this German Injectable Facility and what stage we are and Vizag plant API US FDA approval?

Manish Gupta: So, taking the second one first, Vizag plant is already USFDA approved since 2018, actually first inspection occurred in 2016, and 2018 was the follow on inspection and actually we are due for the third inspection now, but it is already approved plant and all we are adding is more and more products to those approvals and as on last month I think we are close to 20 US VMFs and every year we are filing between 3 and 4 VMFs each year, so nothing really is happening as far as Vizag is concerned from a new regulatory approval perspective. Having said that we have added a new clean room in the beginning of this year and as we speak, we are adding further capacities there to facilitate the medium to long term growth. Now coming to the German Plant, we were planning to take it to US FDA and make it a global hub of manufacturing for injectable products, that project got delayed because of COVID, there was no way to done that project last year, which was the original timeline. Now that the travel is opening up we shall be taking up this initiative starting March or April of next year this is when the site will be upgraded and up-skilled because we will need additional capacities also to be established for US, the first filing has already occurred from that plant, so the FDA inspection is expected by end of next year.

Bharat Sheth: So, do we expect that commercial benefit to start rollout from FY2024 or FY2025?

Manish Gupta: Later half of FY2024 would be our current estimate and major benefit in FY2025.

Bharat Sheth: Thank you and all the best.

Moderator: Thank you. Ladies and gentlemen this was the last question for today. I would now like to hand the conference over to Mr. Manish Gupta for closing comments.

Manish Gupta: Thanks. We hope we have been able to answer to questions or answer most of your queries, if we have missed out any of your questions kindly do reach out to IR advisors Christensen or Abhishek Singhal and we shall get back to you offline. I would also like to thank all our stakeholders for their continued support throughout the difficult times. I wish you all a very happy Diwali and a prosperous New Year. Thank you for joining us.

Moderator: Thank you. On behalf of Sequent Scientific Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.