"SeQuent Scientific Ltd. Q4 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to SeQuent Scientific Ltd. Q4 FY22 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal. Thank you and over to you, sir.

Abhishek Singhal: Thank you. A very good morning and thank you for joining us today for Sequent Scientific's Earnings Conference Call for the fourth quarter and full year ended financial year 2022. Today we have with us Mr. Rajaram – Sequent's Managing Director, Sharat – Joint Managing Director and Tushar – CFO to share the highlights of the business and financials of 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 the stock exchange website. The transcript of 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 if you have any further questions, please feel free to reach out to the investor relations team.

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

Rajaram Narayanan: Good morning everyone and a very warm welcome to our quarter 4 and full year 2022 Earnings Call. Joining me on this call are Mr. Tushar Mistry – our CFO and Sharat Narasapur – the Joint Managing Director.

I am really happy to address this forum for the first time in my capacity as the CEO and Managing Director. Six weeks into this role, I am really excited to be part of the journey at Sequent and I am really looking forward to building this Company with the team here as a major global animal health company.

First of all, I'd like to start off by expressing my gratitude to my predecessor, Mr. Manish Gupta, the former Managing Director and CEO, who has led and grown this Company into such a fine institution. We're today the largest animal health company from India and we are currently amongst the top 20 animal health companies in the world and that's something to be very proud about. We have our presence across 100 countries. About two-thirds of our revenues come from regulated markets. Our strategic capabilities include a formulations business, which has a front-end presence in key animal health markets of Europe, Brazil, Turkey and at the same time we are the only Company in India to have established a USFDA approved greenfield dedicated veterinary API facility. This is a very unique combination that we have. The major credit, I must say, for the Company's significant achievements goes to our more than 1,900+ talented colleagues operating across multiple geographies, who have been instrumental in this phenomenal journey of the Company. As outlined throughout this year, the company is now entering its next phase of growth, which we have headlined under Sequent 2.0. Under the Sequent 2.0 strategy, we envision a bigger, bolder and a more ambitious organization that is focused on growing penetration in existing markets as well as expanding our scale in newer high growth geographies.

Coming to recent times, last year was certainly filled with multiple challenges. We have emerged stronger as an organization, and we are progressing well on our strategic plans. No doubt there are uncertainties relating to geopolitical issues and Europe. There have been sporadic COVID lockdowns. Inflation is a worry and the ongoing disruptions in supply chain continue. Nevertheless, we are very confident of the underlying strength and the performance of our business.

If I look at some of the numbers that we have released, our API business generated nearly 127 Crores in revenue last quarter and this is the highest revenue that we have registered in any quarter in the history of our API operations. In this fiscal, in fact, the API business has now clocked Rs. 430 Crores in revenue and we have successfully completed our customer EHS audits. There have been no critical observations in these audits. Our facility, which is there in Mahad has received the relevant ISO certifications for EHS. We have also successfully commercialized new API's. We have submitted 1 VMF filing and if you look at an aggregate level, our progress report depicts about 24 US VMF filings and 11 CEP approvals. Our other investment, which is in Germany, the USFDA upgrade project has resumed after a stop, which had happened in recent times because of COVID related challenges, and that's progressing well.

If you come to our formulations business, it continues to build on the momentum that it has started on last year and we see some good growth coming in that area as well. I am glad to report that the business has delivered healthy growth in line with the strategy, which was outlined last year and if you look at it on a constant currency basis, the formulations business grew 13.5% and has registered Rs. 980 Crores in terms of revenue. This topline has been boosted by excellent performance in our LATAM business anchored in Brazil, which grew by 42.1% and we've got a much higher contribution from the India formulations business where we've crossed the milestone of Rs. 100 Crores in revenues, clocking 30.5% growth.

As far as Turkey is concerned, despite difficult macro environment conditions, our plan continues to remain on track and we do see the strategic advantage ahead, both as a home market for Turkey as well as a base for exports from Turkey. Through this effort, on a constant currency basis, we are seeing that we have registered revenue growth in Turkey of 17.6% and therefore really if you put all the operations of Sequent together, we have crossed Rs. 1,400 Crores in revenues, growing 7.2% last year. As we progress further, a key component of our Sequent 2.0 strategy is really to consolidate our acquisitions, which we have been pursuing. And we achieved another milestone by picking up a 100% stake in Nourrie, which is now our fully owned subsidiary in Brazil, and this acquisition will enable us to scale up in Brazil as Nourrie provides a portfolio of 23 commercialized and also a pipeline of 17 products for pet and swine segments. So, we are optimistic about our prospects in LATAM because Brazil is one of the fastest growing animal health markets, especially in the companion animal segment. As we build upon the Sequent 2.0 strategy, we are now also significantly enhancing our capabilities, be it in R&D, in key account management and related areas. In this journey, we are very fortunate to have the help of global experts in animal health, and I am really-really excited about the potential of this Company and the opportunity to take it to the next level.

So, at this stage, I will invite Tushar, our CFO to share his comments on the financials.

Tushar Mistry: Thanks Raja and good morning to everyone. Moving on from the operational updates, coming to our financial results. In year-on-year terms for the quarter, our revenues are at Rs. 3.8 Billion, which is up by 11.7% in constant currency terms boosted by recovery in API business, which delivered its highest ever quarter. EBITDA pre-ESOP is at Rs. 386 Million with a margin of 10.1%. While margins continue to be affected by macro factors with continuing impact on input and logistic costs, current quarter also saw cost increases in utilities across geographies. There have also been few one-off costs impact, which include write-off of validation batches of Rs. 21 Million, one-time higher power charges in Germany of Rs. 7 Million and one-time settlement cost of Rs. 19 Million.

We continue to monitor the cost situation very closely and implementing cost control measures across geographies. ESOP costs across quarters haven't been stable on account of changes in management. However, we expect this to stabilize in the range of approximately Rs. 85 to 95 Million per quarter based on fresh grants to new employees.

The current quarter also saw consolidation of our Brazil business and the follow-on acquisition in Brazil. Current quarter results account for full consolidation of Brazil business and 1 month's operations of Nourrie, the recently acquired entity.

Coming to the annual numbers, our revenue is up by 7.2% in constant currency terms at Rs. 14.1 Billion. Growth was largely driven globally by formulations businesses in Brazil and India. EBITDA pre-ESOP is at Rs. 1.4 Billion with a margin of 10.1%.

Current year saw significant volatility in Turkish Lira, which moved from 8.33 to a USD in March 2021 to 14.65 to a USD in March 2022. While this volatility has impacted reduction in net worth by about Rs. 797 Million, we continue to hold a very strong leadership position in the market, which reflects in our constant currency growth in our Turkish operations. We believe that these adverse conditions can be an advantage due to our local manufacturing capabilities as the importers stand to lose heavily on account of currency depreciation. Our net debt increased by Rs. 913 Million, primarily due to the debt raised to fund Nourrie acquisition and for consolidation of minority stake in Brazil. The acquisition also resulted in increase in intangible assets to the tune of about Rs. 228 Million.

During the quarter, working capital went up as we built inventories in some geographies, which were hit by volatility in currencies. We believe we are well invested in working capital to take care of any future volatility in currencies and prices and expect to remain at similar levels in quarters to come. We continue to invest significantly in CAPEX program to accelerate our growth. In FY22, we incurred CAPEX spends of Rs. 313 Million and in FY23, we will continue with our expansion plans in Vizag and Germany.

That concludes my opening remarks on financials, and I would request the moderator to open the floor for Q&A. Thank you.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Praful Kumar from Dymon Asia. Please go ahead.

Praful Kumar: Broadly, in terms of 1-to-3-year period, what is the strategic plan in terms of geographical growth, what are you looking at in terms of growth, margins, gross margins from here and how do you build this?

Rajaram Narayanan: I think we have outlined in recent times our Sequent 2.0 strategy and there are 2 components to it. On the API side, we are clearly looking at strengthening our presence in regulated markets and one of which is the penetration into the US market and that's why we are one of the few companies, which has a USFDA plant in Vizag and that's one area which we will be strengthening from the API side, but the focus is going to be on the regulated markets. As far as the formulations business is concerned, we are strengthening our current presence in key markets. So, we have a base location in LATAM, in Europe, in Turkey and India, and these markets would continue to remain our focus. These are also large markets for animal health. On the other side of the question, which you asked about what's our sense on how in 1 to 3 years are we going to do on some of the financials, I think we have generally been giving an indication that we would be growing in early teens as far as the top line is concerned and we would be expanding our margins, but that's something that has to play out given the circumstances that are there at a macro level right now in the country, but definitely in the long term, the intention is to expand our margins as well as gear on to double digit growth consistently.

Praful Kumar: And last question would be on India, how do you look at it over the next 1 to 3 years because that's done really well, what's the outlook on the India business?

Rajaram Narayanan: The India formulations business is a combination of 2 operations. There are products, which we make ourselves and then, there are those products that we distribute for one of the large companies. Definitely India is a growing market, and it remains one of our top priorities on the formulations side. So, we do see a double-digit kind of a growth, which should remain in India in the near term.

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

Aman Agarwal: I understand that the rise in debt is due to acquisitions, but going forward what level of debt-to-equity company is targeting to maintain?

Tushar Mistry: We are currently at about 0.3 to 0.4 kind of net debt to equity. We don't expect any significant rise from this level because whatever we had to do, we have already done in FY22. We do not expect any significant rise from this level going forward.

Aman Agarwal: The next question is on the goodwill and the intangibles, can you please tell something about the amortization schedule for the increased goodwill on the balance sheet?

Rajaram Narayanan: Goodwill is subject to impairment. We don't do amortization of goodwill. Goodwill is tested for impairment every year, which has been carried out in the current year also, and there has been no impairment on any of our investments so far. In all our geographies, we have sound positions, and we are operating from a strong base, so that's why there has been no reason for any impairment in any of our investments so far.

Moderator: Thank you. The next question is from the line of Tarang Agarwal from Old Bridge Capital. Please go ahead.

Tarang Agarwal: A couple of questions from my side. In Sequent 2.0, there is a thrust on being a value leader in animal health. If you could expand on it in terms of where you are trying to target yourself, that's number 1. Number 2, if you could give us a sense on how big are your addressable opportunities in Europe and Brazil and pardon my ignorance, does this business work on a route of administration or a particular therapeutic segment and if so, how are you planning to get to that? These two questions from my side.

Rajaram Narayanan: Thank you. Let me answer the first question on how we are looking to become value leader. Clearly, the entire generic space is a continuum where you move from unbranded generics to moving towards more specialty generics and that's the journey we are on really, to move to more specialty generics and that's both a question of the therapies that we are in, indications that we supply for as well as the formats in which we deliver those, and therefore we clearly are building a position in injectables, which is one area axis on which we look at value leadership and the second is looking at those molecules, which are available for higher value addition and not where you have more than 1 or 2 players who are likely to be available. So, it's really moving up the generic chain from currently broad-based generics we have, to the higher value added specialty generics, which are there, both in terms of the choices we make in R&D as well as the kind of product formats we deliver it in, and then of course there is the third angle, which is really on value addition that you can make in the area of application of those generics for use. So, that's really the 3 pieces, which we are working on. Towards that, we are obviously also working with the top animal health care companies who are there as the leading edge of innovation and giving us an opportunity to, at some point of time, becoming partners with them. The second area, the question which you asked is in terms of how the market is divided. At this point of time, it seems to be reasonably basic unlike the human pharma market, it's still about companion animals and about cattle and the feed animals that's at one axis. There is more sharper segmentation coming as far as the pet animal or companion animal segment is concerned and that is where you are having some degree of differentiation coming in terms of where it is administered by the veterinarians and the diseases which are treated. But on the other side, in terms of the feedstock and the cattle usage, it is still largely through large farms and holdings and through organized setups, whether it is government or private large farm application of feed and supplements. So, that's pretty much the way in which the delivery happens.

Tarang Agarwal: How big are these markets and how big are your current addressable opportunities in terms of pipelines or the current portfolio of products that you have, specifically in Europe and Brazil?

Rajaram Narayanan: Again, at this point of time, we are not a large player in companion animals, which is a large part of the market. If you leave that piece out, we are pretty much there in the rest, which is about close to 60% of the market, which is the area of cattle as well as other animals. Now, within that, while there is less data available, but I think you can reasonably assume that if you look at the top market after US, the next one would be Europe, roughly around the same size of about USD 10 Billion and then you have Brazil and Turkey and these markets being relevant in size, which are more likely to be about USD 2 to 3 Billion total kind of market, but there is no fixed data available on it, that's broadly the stack rank of the markets which are there.

Tarang Agarwal: And if I may, just one more question, how is the distribution for these products in the geographies that you are operating for formulations?

Rajaram Narayanan: Two routes we have, in some cases we have our own companies, which both manufacture and distribute, which are in Spain, in Brazil, in Turkey. These are places where we have companies with their manufacturing units. In some other markets, we purely have some sales force in some markets and in some cases, we work with distributors. So, it's a mix of these. Three markets where we both produce and sell and, in the others, we are more distributor.

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

Aditya Khemka: Thanks for the opportunity. I wanted to check with you, given the cost inflation in the raw material, excipients, solvents, etc., how is our pricing power in various markets, at least the larger ones we operate in, are we able to pass on the inflation in the raw material to consumers by means of higher prices or are we partly absorbing, partly passing on or are we not able to pass on, if you could just give us some sense there?

Rajaram Narayanan: Firstly, any passing on the price in a largely B2B business is a delayed passing on. So, you incur your cost much earlier and then you are able to get into conversations and passing on much later. So, that's I think the first thing to remember from a sequencing on when we will be able to realize and then comes the question of how much of it you are able to get. I would say that we are beginning to see this more in our formulations businesses where we are able to pass on some price increases, not in entirety at this point of time, again step-by-step you have to take because at the other end, we don't want to lose market share in any place. I think that's one thing we are obsessed about is that we want growth, and we want market share and in the short-term if it means that to sustain that, we need to be a little stiff with our margins, we will be prepared to do that, but in this business, which is a B2B business, we should not take any chances on that. So, we are very committed to holding market share. Then comes in to how do we pass on these price increases. Certainly, in our API business where we have about 60% to 70% of our business is either with long-term contracts or in regulated markets, it's a function of when the contracts expire and then we re-negotiate and gradually pass it on. There is some appetite now for taking price increases at the customer end, but I don't think the entire increase can be passed on. It is just to be something we will share between the two gradually.

Aditya Khemka: And is this true only for the formulations business or also for the API business or is the API business actually worth because it's completely B2B?

Rajaram Narayanan: Yes, so I think in the API business, as I just said, it is kind of businesses we have - those which are with long-term contracts with regular partners and where one as the contract ends, we re-negotiate the prices and our partners are willing to take some degree of price increase and that's about 60% to 70% of our business. The other part of it is what you may call traditionally a spot business and in that, it tends to be much more price sensitive and there we have to be a bit careful and then again it depends on which molecule you are competing on and what's the grade of the product that you are in right now, but we see some clear indications that people are willing to take up prices at the API customer end, but it is much more slower and gradual, but as I said right in the beginning, our obsession is for making sure we don't do lose our customers.

Aditya Khemka: And help me understand this in a little more nuanced manner, veterinary products across the world are branded generic, that's what you said, so if our brand is popular with the customer and we increase the price and you are afraid of losing the market share, so despite being a branded product, do the customers generally switch between brands if the price of one product is somewhat higher than the other brand or is there a stickiness to the brand which the consumer is buying from us?

Rajaram Narayanan: I guess on this one and I think we know some degree of it, at the end of the day, the very fact that it's a branded generic, there is an alternative available even if it is branded and it depends on what is the degree of premium your brand is able to command and how much stickiness is there. So, it's a bit of trade-off around what the pricing you can get and what's the market share you can retain. Now a lot of branded generics business in the animal health area is through very-very large distributors and there are negotiating chains which are there, and at the other end where the prescriptions happen through veterinarians as well as through other large farm institutions, etc. They all have to sustain their business, so while they have a preference for branded generics, they will go for a more competitively priced brand for their end-user because they also have to sustain that. So, it's not that just because you are branded, you can increase prices, and again as I said in the beginning, we are more a generic player than we are branded generic player and we are in the journey of moving up towards becoming a branded generic player, but at this stage, we are largely a generic player. We have the origin of the Alivira brand name which sustains it, but otherwise we are still largely a generic player.

Aditya Khemka: When you say you are still largely a generic player, what percentage of your top line would you classify as generic and what percentage of your top line would you classify as branded generic?

Rajaram Narayanan: Frankly in the animal health business, this line is too fine right now unlike some of the other human pharma, etc.

Aditya Khemka: And just help me understand the distributor dynamics as well. So, generally the distributors to whom you sell, they have a percentage on the MRP as their commission, that's what they make, so generally they would be aligned to a higher price because their commission goes up with the percentage being set, is that the case or why is the distributor not happy with the higher price as long as the veterinarian is willing to prescribe the brand?

Rajaram Narayanan: I think it's a bit too specific, but in general when you have a price pressure in any market, I don't think the distributors just opt for the higher price brand. They also need to sustain their volumes and therefore, there any many other factors, which play in the choice of that.

Aditya Khemka: I will take this offline to be with you.

Rajaram Narayanan: I think it will be good to have this discussion and it will also give me some learning because you seem to know a lot about this business.

Aditya Khemka: My last question for you is when I look at your capital allocation, so you said that there is not going to be any more increase in debt and the goodwill you don't obviously amortize. Should we take that as that we will not probably do any acquisitions in the near term at least for the next 2 or 3 years and try to optimize the utility of the assets that we already have, or can we do more acquisitions as we move forward and the timeframe, I am looking at is 2 to 3 years?

Rajaram Narayanan: We are focused on growing our business in line with the strategy which we have and wherever there is a good opportunity, we will certainly go for it and given our Company and the backing that we have, we are certainly not constrained for any kind of resources. So, right now of course, whatever we do, we will be very disciplined and what we are saying right now is that in the current situation with the visibility we have, it's a very disciplined way of working, but we are not constrained to make any kind of inorganic moves at all.

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

Bharat Sheth: A little more question macro related, when we expect Europe to start delivering injectable to European market and currently what kind of our contribution it is giving to the turnover and once the Europe market and once, we get USFDA, so how will be the margin trajectory?

Rajaram Narayanan: So, I will give you a broad idea about it. One is, as you know, we have a plant which we have in Germany, which was stopped in terms of upgrade work for a short while as far as our USFDA project was concerned because of COVID. Now, we have resumed the necessary upgrade and that in our view in FY25 is when we should be in a position to begin to commercialize some of the opportunities that we have. Having said that, we are much earlier as far as supplying from there to some of the European markets and emerging markets are concerned, so we have already started, although on a smaller scale. But it's just that US operations are more likely to be in FY25 and right now the upgrade work has started.

Bharat Sheth: And what is the potential for this plan to deliver once we start this US, approximately some kind of ballpark in top line as well as EBIDTA percentage terms? Meanwhile my second question, our Vizag plant, which is already US approved, so currently is there any contribution coming from the US side and if not, what is the potential and where do we see FY25?

Sharat Narasapur: The fact that it is a USFDA approved plant, the supplies to US are already on and it's not something new, but the mix of customers we have, it depends on their plan of launch in these geographies. So, we are not constrained into what geography we sell.

Bharat Sheth: And last question, when we launched Sequent 2.0, we had a vision of 25 crossing some kind of a revenue target of around Rs. 3,000 crores and EBIDTA in very high teen, 20+, so with this macro changing, is there any change in that vision?

Rajaram Narayanan: I don't think I want to get back to you right now on what exactly are those numbers, but I think what we have repeated just now is that the long-term plan remains what we have set out to do. There could be re-basing depending on what the current macro situation is, but we definitely would like to deliver what we set out to do last year. Of course, the rest of the things may be in the next call or something I can get clearer about it, but there is no going back on our ambition.

Bharat Sheth: With your permission, the last question for Tushar, I mean on the financial side. For FY22, how much was the one-off and how much was ESOP cost and when do we expect that ESOP to end?

Tushar Mistry: ESOP cost has been a bit volatile over the last few quarters because of Manish leaving and also because of my reversals and all, but going forward, it should stabilize in the range of about Rs. 85 to Rs. 95 Million per quarter. Again, because of the new grant that is happening, this cost is higher in FY23. Going forward, again you will this tapering down to half of it in the following years. So, that's how we expect this ESOP cost to go. One-off would have been approximately for the current year in the range between Rs. 100 to 150 Million is what I expect in FY22.

Bharat Sheth: And do we expect any further one-offs or some kind of estimation that we expect that can be?

Tushar Mistry: No, not really. We don't expect that anymore.

Bharat Sheth: Sir, whenever, next time also in next call if you can share on the Europe plan. Thank you very much and all the best!

Moderator: Thank you. The next question is from the line of Ayush Parikh from RS Capital Limited. Please go ahead.

Ayush Parikh: I think that the contribution from regulated markets have gone up significantly to 71%, so what is the outlook for FY23 and coming years?

Rajaram Narayanan: We can't give you a number for that, but as we have repeated, directionally for us more presence from the regulated markets is part of our strategy, both on the API side as well as on the formulations side and our investments are in line with that.

Ayush Parikh: And what is the increased contribution from those markets have on our margins?

Rajaram Narayanan: Again, I cannot give you the exact numbers, but generally regulated markets because of the nature of the products that we supply, the nature of the customers and the ability to pay, will always tend to have higher margins than the unregulated markets, but that's a generic trend, but it's very customer specific.

Moderator: Thank you. The next question is from the line of S. Chatterjee from Aster Capital. Please go ahead.

S. Chatterjee: I have 2 questions. First one is could you please provide some color on the raw material cost hikes and is it easier to pass on the cost in regulated market compared to unregulated market?

Rajaram Narayanan: I think we have referred to this earlier. The ability to pass on price is a delayed thing from the time you actually get the price. It depends on the kind of customer base you have. There are 2 kinds of sets of customers, those with whom you have more long-term contracts and those who are more what you would call the spot buys which happen in terms of the business. On the spot side, it tends to be more difficult because it's very price sensitive. There are lots of grades, lots of competitors, but on the more long-term contract because of the relationship you have as well as the value you are able to give to your customers, you are able to gradually pass on the cost, but it's a delayed delivery of that.

S. Chatterjee: Sir my question was regarding the difference between regulated and unregulated markets, that earlier answer to Mr. Khemka I already listened?

Rajaram Narayanan: So, I don't think it's so much to do with the regulated and unregulated. It has got to do more with what kind of customer relationships you have and the nature of that customer engagement.

We have a larger presence in regulated markets and therefore it may appear to be because it is regulated, but it is more to do with the kind of customer.

S. Chatterjee: And my last question is where do you see your pet and vaccine business in the next 4 years?

Rajaram Narayanan: Clearly on the pet side, we realized that it is fast growing, which is a companion animal segment and both on what we are developing on the API side with our partners as well as on our formulations side, that is going be a growth business. I think globally that business is growing somewhere in 5% to 6% and in specific segments, it may be better. So, we are going to be there, but as I said, there are 4 markets that we are looking. We are looking at India, we are looking at Brazil and we will also be looking at some parts of Europe, but that's something that we will be developing at a rate which should be faster than our average of the Company. On the vaccine space, we have nothing really to report right now. We are in conversations with different manufacturers to see if there is an opportunity to introduce them in our country, but vaccine involves a fairly long process of registrations, etc., so, there is nothing to report at this stage.

Moderator: Thank you. The next question is from the line of Prashant Kumar Hazariwala from Solitaire Financial. Please go ahead.

Prashant Kumar: My question is around FY16-17, we used to do 5% kind of EBITDA and then gradually we moved to 16% kind EBITDA in FY21. Now we again came back to 7.7% of EBITDA, so it's like a complete circle, you get to 0 kind of thing after over 4 to 5 years. So, how do we see this EBITDA trajectory going forward? Revenues you say you will grow but my main concern is EBITDA. We are not getting on to that, so how do you see EBITDA improvement going ahead?

Rajaram Narayanan: So, our clear intent is to increase that as far as EBIDTA margins are concerned and our attempt is very clearly in our plans and strategy to keep increasing it and we're trying to do that through a combination of the mix of products that we are selling, the investments we are making but having said that, in the recent times, we have also surprised everyone, not just us, everyone in the industry whether it is the input related issues, cost related issues, supply issues and we are making sure that it doesn't come in the way of our long-term growth story, and therefore while we are consistently looking at cost initiatives, making sure that we are developing products and launching them faster. So, all these initiatives are in play. So, clearly expanding margins is our ambition and that is something that we are very committed to.

Prashant Kumar: So, like after 1 year, that was a turmoil, no doubt about it, how do you see next year, are you seeing an upside in margin or still we will be struggling to maintain this kind of margin?

Rajaram Narayanan: Our intent is to increase and expand the margins and that I'm saying irrespective of how things pan out, but right now our intent is very clear that we would expand margins as we have guided in the past of 150 to 200 bps, but the circumstances right now is something which I am not able to predict that well, but should we have no unexpected surprises, that's the direction in which we will go every year, but it is also important to know that we may be re-basing in terms of where we are starting from. So, I think comparisons with FY21, while we will eventually reach there, but I don't think it is the attempt to immediately benchmark ourselves to FY21 because circumstances are very different.

Prashant Kumar: I am just talking about this complete circle that we have started from 5 to 14 and then again back to 7, that is what is happening there?

Rajaram Narayanan: I think that's a fair point, but I am very confident that going ahead unless there are any external macro surprises, we should start in the expansion journey again.

Moderator: Thank you. The next question is from the line of Yogesh Tiwari from Arihant Capital Markets Limited. Please go ahead.

Yogesh Tiwari: I just wanted to understand earlier in the call you told that the European market is about $10 Billion and if I look at our European numbers like, we make about Rs. 4 Billion, so just wanted to understand if this European market is very much competitive and diversified because the revenue share, which we have out of the total market is quite small, so just wanted to understand the nature of the European market?

Rajaram Narayanan: As I said earlier, it's a ballpark estimate. It covers all segments, it covers cattle, it covers poultry, swine, it covers pets or companion animals, it covers other components of the industry like vaccines, etc. where we are not present in. So, I think it's just that it is a large market from a point of view what the opportunity could be depending on where you are present and the fact is yes, if you look at the total market at USD 40 Billion, we are USD 200 Million. So, there are many players who are there in this industry and I think we will slowly improve market share. I think the good news is that it's a large market. So, we have a big headroom and that's what keeps us bullish about these markets.

Yogesh Tiwari: Just a follow-up thought or a question. It's like we are present in the Europe market and there's a lot of room for improvement over there to get market, then why are we actually looking at building the US market or entering the US market because that will also have a setup cost and everything, when we already have everything setup in Europe and a lot of opportunity is there, so is there any advantage in US or something different from the Europe business model?

Rajaram Narayanan: So, I think there are a couple of nuances in this. Europe is multiple countries, and we should not look at it and each of them has their own regulations, your competitive position is different in each of these markets. So, while we have a starting point in Europe because of our presence in Spain, we certainly are not present in many of the large markets, which are there in Europe or UK, whether you take Germany and Italy. These are markets where we are seeing an opportunity to grow, either through distribution or through our own products. So, that is one part of what we want to do. As far as the US is concerned, it is the other large market where we don't have a presence on the formulations side and that we believe is a very-very long-term specialty generic market, which we can develop and that is why that's another operation being supported by our manufacturing facility getting created. So, there are 2 different components of our strategy. It's not a trade-off of one versus the other. In the case of Europe, we already acquired an existing facility and the operation, and we are sort of expanding in that market. In the case of US, it's about developing a very-very specific capability.

Moderator: Ladies and gentlemen, we will be taking the last 2 questions from now. The next question is from the line of Mahek Talati from Yellow Jersey Investment Advisors. Please go ahead.

Mahek Talati: My first question is regarding Albendazole API. As it is one of our major API, are we seeing an increased demand for the same and my second question is regarding the API supply contract which we have signed, when are we expecting the revenue generation for the same?

Rajaram Narayanan: I'll come to the second question. I think we have said in the earlier investor calls that we are expecting towards the back end of FY23 and the early part of FY24, but the real realization and maximization is more in FY24 is what we have indicated, and I think that's what we are on plan to right now deliver. So, that's the second part of your question. The first part of your question is, has the Albendazole demand revived, certainly as we have said before, what were the restrictions because of lower pickup from WHO seems to be easing and we are, therefore, seeing some pick up on that side where it's also the grade that we supply, so that side is picking up. On the other side, it is still a competitive market, and we are trying to get a strong entry there, but on the WHO side, we are certainly seeing a pickup, which is happening and that's the one, which we had indicated earlier we were not able to supply.

Mahek Talati: So, when we will see the pre-COVID kind of pickup for the Albendazole, are you expecting any timeline for the same?

Rajaram Narayanan: I would imagine that as the entire COVID situation eases and everything returns to normalcy, if there is something called normalcy, then we should see it in another 12 months or so, we should see that kind of a situation, but having said that, we are a high quality grade manufacturer of Albendazole and therefore for us, that's an opportunity which is coming irrespective of how the market is growing.

Rajaram Narayanan: Thank you all for joining this call and as I said in the beginning, Sequent in now in a very-very exciting phase of its growth journey and as a Management team, we strongly believe that there is an opportunity to develop a very-very unique animal health Company, which will become even larger and a significant player, so thank you all for your support and we look forward to meeting you at the next call.

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