# "SeQuent Scientific Limited

# Q2 FY '23 Earnings Conference Call"

## November 08, 2022

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**MR. P.V. RAGHAVENDRA RAO – CHIEF FINANCIAL OFFICER – SEQUENT SCIENTIFIC LIMITED**
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**Moderator:** Ladies and gentlemen, good day, and welcome to the SeQuent Scientific Limited Q2 FY '23 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 star then zero on your touchtone phone. Please note that this conference is being recorded I now hand the conference over to Mr. Abhishek Singhal. Thank you, and over to you, sir.

**Abhishek Singhal:** Thanks, Raja. A very good afternoon, and thank you for joining us today for SeQuent Scientific's earnings conference call and for second quarter and half year ended financial year 2023. Today, we have with us Mr. Rajaram, SeQuent's Managing Director; Sharat, Joint Managing Director; and Mr. Raghavendra, CFO to share the highlights of the business and financials for the quarter. I hope you've gone through our results release and the quarterly investor presentation, which have been uploaded on our website as well as stock exchange 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 you have any further questions, please feel free to reach out to Investor Relations team.

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

**Rajaram Narayanan:** Good evening, everyone. A very warm welcome to our Quarter 2 and H1 FY '23 earnings call. Joining me on this call is our CFO, Mr. P.V. Raghavendra Rao and Mr. Sharat Narasapur, the Joint Managing Director of the company. As we complete half a year leading the SeQuent business, I would like to acknowledge and appreciate the resiliency in our business and the grit of our team.

The global macro environment continues to be quite uncertain, but equally, it provides the opportunity for companies like us to reach sharper choices in strategy and resource allocation. This can be especially challenging for a global company like us as we operate right now in four countries with nine manufacturing facilities across three different continents. During the last quarter, we have faced multiple headwinds in the form of geopolitical issues in Europe, recessionary pressures in some of the economies, volatility in currencies, some rising prices and of course, uncertainty in raw material supply. But we envisage that these are short-term challenges and the team is taking strategic initiatives to adapt and overcome.

You would have seen from our presentation, in fact, on Page 4, where we have enlisted some strategic initiatives to win in such an environment. For example, we have reprioritized some of our markets and customer segments in both Formulations and APIs. Let me now start with our Formulations business. On the Formulation side, we have realigned our focus markets to take advantage of some of the opportunities which are coming and at the same time, to also allocate our resources appropriately. This can be seen in the way that we have bifurcated our revenue streams on Page 8 of our presentation and broadly categorized our business into three baskets of Europe, Emerging Markets and India.

I'll start with India. The Indian market has been growing at a very fast pace. In fact, it is growing in double digits in market terms. And we ourselves have been growing in double digits in the last three years and crossing the milestone of INR 1 billion in annual revenue.

You would have read about our recent announcement, and I'm excited to announce that we have signed a definitive agreement to acquire 100% stake in Tineta Pharma. The revenues of Tineta in FY '22 were INR 810 million, approximately. It is a profitable business, and this acquisition will be accretive to our EBITDA margins. It will also help us significantly to scale up our commercial presence in India in animal health, and nearly double our current India Formulation revenues. Tineta has a well-established presence of more than 25 years in the Indian market, specializing in the livestock segment. The business has established a premium Vitum brand in the nutritional segment, which is amongst the largest brands in the Animal Health portfolio.

The Tineta portfolio comprises of more than 30 brands across nutritional supplements as well as therapeutic pharmaceutical formulations. They come with a 270 strong field force, who are well experienced and the company is also supported by a deep distribution network and long-standing manufacturing partnerships. We are excited to welcome Tineta's experienced business team into the SeQuent family. And even more happy that, Mr. Vipin Chandan, who is one of the promoters of the company will work with SeQuent to transition and support this business integration.

So going forward, India will remain one of our key focus markets, and we will aggressively scale up our Formulation business, both manufacturing and R&D executed locally.

In the Emerging Market segment, which also includes fast-growing markets like Brazil and Turkey, we have seen very, very strong in-market growth, both in constant currency in the case of Brazil and Turkey and in translated currency in the case of Brazil. Strategically, the Emerging Markets will cover different categories like poultry, cattle and ruminant animals. In the acquisition of Nourrie in Brazil earlier this year, we got a strategic entry into the fast-growing pet care segment, while sustaining strong growth in the existing livestock segment.

In Turkey, however, we have faced currency volatility in addition to high inflation in the market, and that has resulted in some contraction in demand. While we did see strong market growth as well as in-market constant currency growth, the currency challenges remain for us. And there is unprecedented surge in energy costs across Europe, and that has impacted some of our margins in our Europe business, particularly in Spain. The new rules in the European Union also restrict the routine use of antibiotics and we are therefore, adjusting our product portfolio to meet some of these regulatory requirements. We have identified an opportunity in nutritional additives and launched a few products, which will aid in improving the gut health of animals thereby reducing the dependence on traditional antibiotics.

So our immediate attention in Turkey and Europe is to reshape the product mix, contain costs and prioritize the segments that we operate.

Overall, I'm happy to report that in the second quarter, in constant currency terms, the Formulation business grew by 14.8% year-on-year and 1.1% year-on-year in reported currency, clocking a growth and at the same time, a revenue of INR 2.3 million. With the India and LatAm markets, of course, registering double-digit growth.

In Page 7 of our presentation, we have shown the trajectory of the Formulations business, and you can see that it has grown at a 3-year CAGR of 11%. And now with the acquisition of Tineta, we should see accelerated levels on this. This level of growth, in fact, is a testimony to the resilience of our globally diversified business. We now have a presence in more than 80 countries across the globe.

Now coming to the API business. The macro environment has impacted even our end customers, and therefore, we have seen subdued demand during the quarter. In addition, the current situation also resulted in higher input costs and pricing pressures. And therefore, in the quarter, the API business generated a revenue of INR 920 million. While it is a growth of 3.5% quarter-on-quarter, it is a decline on a year-on-year basis.

For the half year, the revenue stood at INR 1.8 billion. Our overall API margins remained directionally stable, and we have also invested considerably in upgrading our facilities in the area of EHS and quality.

But despite a slowdown in overall sales in our API business, we remain focused on the quality of our API sales because we believe, that will contribute towards a return to growth in the next few quarters. The contribution of sales to regulated markets is around 65%, which is a very strong position to be in. These are more stable and long term, and they value the quality of our products as well as our manufacturing capabilities.

We would also like you to note that the top 10 animal health companies in the world are now our customers, and this basket comprises about 45% of our sales, and this has grown from 28% just two years ago.

On the new product front, we are accelerating our pipeline development efforts by expanding our teams in the API R&D setup. And at the same time, we are also building necessary capabilities for new product development and launch. At present, around 10% of our revenues comes from new products. And this is a significant increase from just 2% a few years ago. Now this setup and investment in R&D will help us bring new products in a much shortened time frame. We now have three CDMO projects at different stages of development. So all these initiatives are in preparation for future growth as we begin to set ourselves towards building a high-quality API business, which is founded on sales to regulated markets, new products and the share of top 10 customers.

I'm also happy to announce that the Mahad site has received the EcoVadis Sustainability Silver Medal and certificate, and that sort of reinforces our commitment to sustainability, and it's a significant milestone for us. In addition to that, of course, we continue to have our GMP-approved facility upgraded to meet all EHS standards.

Having said that, overall, this has not been a very easy quarter. There have been many macro factors, which have prevailed, created some uncertainty. And the results overall may seem a bit disappointing, but our diversified portfolio and our deep capabilities in fact, give us the opportunity to win in such an environment by renewing our focus on priority markets, priority segments, implementing strong profit improvement plans and more importantly, I think, as evidenced by our recent initiative, it shows our confidence to grow strategically even through acquisitions, reinforcing our SeQuent 2.0 strategy. We expect that these moves will play out more favorably for us in the coming quarters.

I'll now hand over to our CFO, Mr. Raghavendra Rao to provide an update on the financial performance.

**P.V. Raghavendra Rao:** Thank you, Raja. Good evening, everyone. I will begin by detailing the proposed acquisition. Yesterday, our Board had approved the acquisition of Tineta Pharma for an enterprise value of INR 218 crores. A part of this will be paid as cash consideration, which is about INR 153 crores and the other part will be by way of preferential allotment of SeQuent's equity shares of INR 65 crores.

The acquisition will be immediately accretive for SeQuent, significantly scaling up SeQuent's commercial presence in India with near doubling of our current India revenues. CSR revenues stood at INR 81 crores for FY '22, delivering a double-digit Y-o-Y growth. With the addition of Tineta SeQuent's India business, which is fast-growing, will have an annualized combined revenues of approximately INR 190 crores.

I will now briefly update on the key metrics for Q2 and H1 of FY '23. Our total revenue for the quarter is at INR 3.4 billion and has increased by 2.9% Y-o-Y in constant currency terms. The major driving force of the growth has been our Formulation business, which contributed INR 2.4 billion, with a strong 14.8% year-on-year constant currency growth. On reported basis, Formulation business is up by 1.3% year-on-year.

The Emerging Market business continues its growth momentum, delivering a revenue of INR 1.1 billion with a robust 34.2% constant currency growth. India business has also delivered a 10.9% growth with a revenue of INR 319 million. Europe business has suffered macro headwinds and is down by 7.3%, contributing INR 899 million. The contribution from API business stands at INR 920 million.

In Q2, the EBITDA, excluding ESOP costs stood at INR 150 million, while the reported EBITDA came in at INR 51 million after considering the ESOP cost of INR 98 million. Gross margins continue to hold despite the challenges like inflation in our key input materials. Overall, operating costs remains flat despite inflation pressures. And we have incurred about INR 32 million for plant quality and improvement initiatives during the quarter.

In H1 FY '23, the Formulations business clocked a revenue of INR 4.8 billion with a strong 17.1% year-on-year constant currency growth. The API business was at INR 1.8 billion. Overall reported sales for H1 is at INR 6.8 billion and are up 7.5% in constant currency terms and 1.2%

in reported terms. In Hl, EBITDA, excluding ESOP stood at INR 351 million, while the reported EBITDA is at INR 161 million after considering ESOP costs of about INR 190 million.

Due to continuing inflation in Turkey, which continues to be above 100% over the last three years on a cumulative basis. Accounting under Ind AS 29 financial reporting in hyperinflationary economies continues to be triggered for us. Accordingly, the financial statements of subsidiaries in Turkey have been prepared in accordance with Ind AS 29, which has impacted our consolidated EBITDA by about INR 24 million for the quarter. Going ahead, I'm very confident that we will resume our growth trajectory. Thank you very much, and we can now open for Q&A.

**Moderator:** [Operator Instructions]. The first question is from the line of Rishab Jain an individual investor.

**Rishab Jain:** I have two questions. My first question is on the Tineta Pharma acquisition. So could you please talk a bit about this acquisition? So basically, what kind of products have we acquired? And what are the synergies that we are looking at this acquisition. And also on the financial side, if you could help me understand the FY '22 top line was around INR 81 crores. So how has this business performed during H1 FY '23? And what is the EBITDA margins for this entity? So this is my first question.

**Rajaram Narayanan:** Can you also just ask the second question?

**Rishab Jain:** Yes. My second question is on the overall India business. So currently, the business is around INR 190 crores today along with the acquisition. I wanted to understand how large can this business be over the next three to four years? And what kind of growth rate do you envisage for the India business?

**Rajaram Narayanan:** Thank you for the questions. So to give you a bit about what Tineta Pharma is, it is a 25-year-old company, which was founded by three promoters, and who have had deep experience in the animal health industry. And over the period of the last 25 years, they've built a portfolio of products in this company. And the products largely cover nutritional supplements and some pharmaceutical formulations for the livestock segment, which is largely for cattle.

The brands that they have are very well established. One of the larger brands, in fact the largest brand that they have in the portfolio, is a brand called Vitum. And the Vitum range itself is more than INR 50 crores in terms of sales, making it one of the larger sort of animal health brands that we have. It comes with a strong sort of field force, which is around 270 people who are very experienced in this business. And therefore, when we look at the synergies, which we are talking about, we also have an animal health business specializing in livestock cattle, and that's about INR 100 crores with more than 100 people. So the combined business, which we would look at, would be found INR 190 crores with one of the larger, stronger field forces in India as well as, of course, a portfolio of very strong products, many of them complementary.

From a pure synergy point of view, we see a lot of growth synergies because there's an opportunity for a lot of cross-sell, up-sell, which is possible through the combined team. And also with a strong front end, which is there with the Tineta team and our strong sort of back-end capabilities in terms of R&D, product development, potentially API integration, we see that there's an opportunity for us to speedily launch a lot more products and build this business. So there is going to be both expansion as well as depth possible in the portfolio.

In terms of the broad financials of this of Tineta, it was about INR 81 crores of sales in FY '22. I'm unable to give you a number for the first half because it's still an unaudited figure, which we have an idea about. But all that I can say is that they have generally grown in high double digits in the recent times between 10% and 20% every year over the last three years to four years. And as we know that the first half is tracking quite well in line with our plans. And so therefore, we expect that FY '23 will also be a strong business when it integrates with us.

As far as the overall India business opportunity is concerned right now, it's about INR 190 crores. The market in general is growing anywhere between 8% and 10% in this business. So our ambition is to grow much faster than the market after we combine. And therefore, of course, in addition to growth, we also expect synergies in terms of margins.

You ended up with the question, what's the margin profile of Tineta. So generally, it's in high teens. That's the kind of a margin profile. So depending on the year and depending on the mix. So that's broadly the kind of EBITDA profile that we see for the Tineta business. And that's what we think will help in quick accretive EBITDA as well as allow us to get more synergies. So I hope that answers your questions.

**Moderator:** [Operator Instructions] The next question is from the line of Vishwas Nandwani an individual investor.

**Vishwas Nandwani:** So my question pertains to the API business. So in the first half of FY '23, we had seen INR 181 crores of revenue. That is a decline of 10% Y-o-Y. So what has been the major contributor here? And if we see the second half of FY '23, would the revenue be largely flat or second half, we can see a stronger revenue than the first half. And pertaining to this, the annualized levels for FY '23. So according to the numbers, will we go down by 9% to 10% versus FY '22 on a full year basis? And is this a new base, which we can assume the forecast for our FY '23? And on FY '23 base, how do you see the growth over the medium term? And what would be the drivers for this growth?

And my second question pertains to the new product, which have contributed approximately 10% of your API sales, so how would this pan out based on your pipeline and conversation with your customer? And is the margin profile of these new products better than existing business margins? So these are my two questions.

**Rajaram Narayanan:** A lot of questions, I'll try and answer one at a time. So our first half API revenues are at about INR 180 crores. And I think there are, it's certainly lesser than what we had planned. And I have listed some of the reasons which were there. Of course, if you look at it in the full last six months basis, there have been a combination of reasons some internal, for example, like the fire incident that we had. But at the same time, there has been pressure on the demand side, particularly at the end of our end customers, which has therefore translated into either lesser quantities which have been ordered or to some extent, a delay in the purchase.

And like I said, our customers are at this point of time also operating in markets, which have some of the economic headwinds which are there. And that does translate to some extent back to the API industry as well.

So having said that, while I can't give you a forward-looking statement on what the second half will be like, it is more likely to be a little better than the first half. But having said that, we do not expect that it will be at the levels at which we did last year. And I think it would only be fair to say that it may be a marginally better than the first half. And this is something that will, however, accelerate as we move into the next three to four quarters, which is what I have spoken to you about on some of the initiatives that we are taking and the responses that we are getting. So I think it would be reasonable to say that, to some extent, we are rebasing the API annual numbers, and we should be looking more in the rebased FY '23 to sort of set the platform for future growth.

Now where will the annualized number land up with, I think from what I have spoken, it should be, the second half will be slightly better than the first half, but not in anywhere in the area of what we expected to grow versus last year. Now in terms of where we are seeing the future plans on this, definitely, we believe that the most important thing for us is in such an environment to improve the quality of our business. So we continue to focus on our regulated markets, which are about two-thirds of our business right now. And that is more stable business, which we need to build. And towards that, we are launching a lot of new products. And it is already 10% of our portfolio, and we certainly want to keep increasing that. We have a large number of products, which are at different stages of development in API, some of them ready to launch from quarter 4, end quarter 4 or early quarter 1, and that should give us some incremental revenue and then, of course, scale up from there.

And looking at the future years, yes, we want to certainly grow on the rebased FY '23. We would expect to grow in double digits in terms of top line from the new base that we have in FY '23. But what we expect is that the quality of the growth, the margins that we will have, as well as the sustainability of that business will be significantly improved and better than what it is today.

Now coming to the last part of it on, how will the margins for new products be. Typically, when you launch a new product because in the initial few quarters, it tends to be lower than the aggregate margin that you have, but then it rapidly sort of increases after a few quarters. And that is why you need to have a continuous cycle of API launches, which are sort of quickly reaching the sort of targeted margin. And because we are talking to regulated customers as well as the top API veterinary companies, we expect that these will be sustainable margins without any kind of a currency impact exception. So that, I think, in summary, where we think the API business will grow.

**Moderator:** Thank you. The next question is from the line of Nikunj Jain from NJ Investment.

**Nikunj Jain:** My question is, first, related to the Europe business. So the Europe business has further weakened in the quarter -- so the Q-on-Q constant currency growth also what we can see is negative 11.2%. So just wanted to know the reasons like what's going on in that geographical area. And when do we see this business to recover in Europe?

**Rajaram Narayanan:** Are you on the call? I can hear you. Just ask your question. When do we see this business recovery? Is that your question?

**Nikunj Jain:** Yes. So I wanted to know the reason of further weakening of the Europe business. So what's happening? What's the situation there now? And when do we start when do we seem to feel that this business will recover from the current situation?

**Rajaram Narayanan:** Yes. So thanks for the question. I think our Europe business, which is the Formulation business has got two components. There is a large component, which we sell within countries like Spain, where we have a strong antibiotics-based portfolio. And then, of course, we have a distribution portfolio where we distribute for some of the larger companies. What we are seeing is really pressure coming at two ends. One is in general, of course, the economic conditions because of all the European issues related to war, to increasing price of fertilizers and all of those things have resulted in a reduction in demand at the farmer level. And therefore, we are seeing some pressure coming in, in terms of the demand side. How long will that continue? I really don't know it's a very macro sort of situation, depending on the war, and the pressures which are there.

The second question is really in relation to demand is the one on the control on antibiotic usage, which has come through quite significantly in Europe. There we are immediately, of course, rejigging our portfolio and we think that in the next four to six quarters, we should be able to adjust the portfolio and begin to see growth coming from that.

But I think the larger question in Europe is the rise in some of the energy cost, input costs on account of gas and fertilizer, etc., which is happening. And therefore, our focus now is to make sure that we are profitable in Europe. And therefore, we are taking initiatives to make sure that while the market eventually recovers, which we can't predict right now, we will at our end, however, be very determined to reduce our cost base, make sure that we are investing in profitable products, improving our margin and therefore, use this opportunity to create a fairly profitable robust business, which is more sort of sustainable.

So I would say that if the economic situation comes back, then I think in about four to six quarters, we should see top line growth coming back in Europe. But having said that, we certainly expect profit improvement coming in Europe very quickly because of the actions that we are taking.

**Nikunj Jain:** So are we seeing any sort of lower normalization of the energy cost in Europe?

**Rajaram Narayanan:** I think we cannot predict that right now. The energy costs did shoot up. They have stabilized a bit, but I think we have to do what we can control. And what's within our control is to make sure that we are profitable. We don't sort of chase costs, which are not defendable immediately, and therefore, make sure we are on the right product mix and conserve our cash and keep our profits.

And I think while at the same time, use this opportunity to reshape our portfolio because I think such kind of a difficult situation gives us a very good opportunity to walk away from certain low-margin businesses and at the same time, invest in high-margin businesses when companies or when competition may not be taking the same kind of initiative. So it helps us to prepare for a stronger business in Europe. Yes. But I don't think we can look at stuff which we can't control.

Look at alternative source of energy and things like that, which we are implementing in our plants. But that having been said, we're doing that in both Spain, Turkey etc.. But I think the key challenge in such times when a lot of the things are not in your control, I think we have to just make sure that we focus on things which are in our control and keep ourselves profitable and ready to take the advantage when the market sort of stabilizes.

**Nikunj Jain:** Just a broader question on this in Europe. So the last three year CAGR, if I see, it comes to around 5%, three year CAGR of the business. So structurally, is it a 5% to 7% growth market or even if everything normalizes and if you start getting back the top line, can we grow at a double digit percentage?

**Rajaram Narayanan:** So look, right now, in fact, it depends on which portfolio you're in. I think the market right now is more in low single-digit kind of growth. On a CAGR basis, yes, the market was growing at 5% to 7%. But I would say that right now, there are opportunities to grow certain segments of the market much faster but more from a profitable growth point of view.

So I would say that which way this growth will go, I cannot say much about the overall market right now because it depends on many factors. But we are committed to sort of making sure that our margins improve, and we are growing in what are the profitable parts of the portfolio.

**Moderator:** Thank you. The next question is from the line of Bhavya Shah from GV Capital.

**Bhavya Shah:** So I have two questions from my side. So the first question is, as we can see that gross margin has further declined by 100 bps in this quarter. So just wanted to understand, is this the bottom or are we expecting any further deterioration?

**Rajaram Narayanan:** I'll just invite Raghav to say the initial comments on this.

**P.V. Raghavendra Rao:** Yes. From the business perspective, gross margin is stable. What has happened is because of this hyperinflationary accounting, we have had to take some hit on the gross margin. So it's about 1.1% impact on the gross margins, if you remove that, the gross margins are stable.

**Bhavya Shah:** And the second question is, have we started seeing some cooling off in packing material cost or solvent prices any prices changes, I think.

**P.V. Raghavendra Rao:** Yes. I mean, if you see Y-o-Y, we can see the RMC impact, but I think it has stabilized. The increase has a little bit stabilized. So Q-o-Q, the impact is not that significant.

**Rajaram Narayanan:** Despite this it has not come down yet.

**P.V. Raghavendra Rao:** Yes.

**Moderator:** Thank you. The next question is from the line of Vishal from Systematix.

**Vishal:** On the API business, you had talked about a $10 million supply order from a global top 10 company. So has that supply order commercialized?

**Rajaram Narayanan:** So just give me one minute. Sorry I will just give you the numbers, hang on. So, yes, the $10 million has not yet materialized, but the start of the supplies certainly has materialized, and we have started in this quarter, we have started supplying some of the requirements. And we are hoping that it will translate on an annualized basis to the full $10 million opportunity, yes.

But as I said earlier, all customers are slowing down a bit on the demand side of it. So while we may not realize the entire value which was originally envisaged, I think we are the only qualified supplier to them. And therefore, we will just continue to supply whatever are their requirements and it could be somewhere in between the number which is there, which we've indicated somewhere below that. But it has already started in terms of supply this quarter.

**Vishal:** You might not have booked a pro rata number this quarter. Is that fair to assume? And….

**Rajaram Narayanan:** Yes, I don't think it's the pro rata number yet because even the initial quarter is always lower when you start.

**Vishal:** And should we expect the API business to bounce back in subsequent quarters? Or it will depend upon the macroeconomic situation overall?

**Rajaram Narayanan:** So I think the macroeconomic situation is what it is. And it has definitely impacted the overall sort of oppportunity. But I think I spoke to one of the speakers earlier. We expect the second half of this year to be a little better than the first half of the year, but not the kind of buoyancy which we were expecting earlier.

But subsequently, I think, with the larger sort of regulated market contracts that we are finalizing, we should see a bounce back happening on the API. But it will be a bit of a slow recovery, but in each quarter should be better than the earlier or at least each half should be better than the earlier one, going ahead.

**Vishal:** We have a large number of DMFs circulating master files filed in the US, but you would not be supplying most of those. So any sense on how these DMFs will get triggered into commercial supplies, say, a number like maybe every year, do you expect some of these DMFs to be commercialized and add to your business meaningfully?

**Rajaram Narayanan:** Yes, I'll invite Mr. Sharat Narasapur, our Joint Management to answer that on how many would we sort of trigger once every year.

**Sharat Narasapur:** Yes. Certainly, I mean, there are multiple DMFs and we are one of the leading DMF filers. And all have actually interest of customers. And I would say that at least one would get commercialized because the commercialization process itself is a long-drawn process of validation and changing the source etc. So certainly, we can expect to commercialize at least one DMF every year.

**Vishal:** So one every year, is that how we should look at.

**Rajaram Narayanan:** Yes. I think that's reasonable to look at, but the value of each could be quite different, yes depending on…

**Vishal:** And how large can each opportunity would be?

**Rajaram Narayanan:** I don't want to sort of right now, give an indication. But as and when we commercialize then we will definitely be able to give you some indication depending on which one we commercialize first. Yes. Thank you!

**Vishal:** And on Europe, just one thing, is there an incremental change on the regulations in terms of usage of antibiotics? Or these are just the old regulation and the implementation has got stricter?

**Rajaram Narayanan:** I think you're right. The regulations are more than three years old. But it has been staggered in the implementation and the markets, where we have a significant presence right now, which is markets like Spain and the Mediterranean countries have been the last to adopt those regulations.

Therefore, it's been more aggressive in this period. But I think we will, in some sense, developing new products, which are nutritional products, which are alternatives to the use of extensive use of antibiotics. And therefore, I think we will see a shift in the portfolio mix, which should at some point of time balance out.

**Vishal:** But what percentage of your Europe sales would be antibiotics now?

**Rajaram Narayanan:** Look, I think I don't want to hazard a guess. Probably by the end of the call, I'll try and come back to let you know what it is. But again, as I said, it's not a ban, okay, on any of the antibiotics, which we use, it is a decreasing usage of it because of the new regulation in terms of now requiring veterinarians to prescribe each of the antibiotics and that in general therefore constraints the demand to some extent versus free usage, which has been the practice over there.

But it therefore restricts some of the access to antibiotics for farmers, etc., and therefore, results in a periodic sort of slowdown. And therefore, you would need to shift your portfolio to cope up makeup for that.

**Moderator:** Thank you. We'll move on to the next question from the line of Udit Bokaria from Catamaran.

**Udit Bokaria:** Sir, if you can just highlight what was the total…

**Moderator:** Sorry to interrupt you, Mr. Bokaria, please increase the volume of your device…

**Udit Bokaria:** Yes, sir, if you can tell us about albendazole sales in the API and what was the peak number two, three years ago?

**Rajaram Narayanan:** So our albendazole business, at a point of time about three years ago, used to be in about 15%-odd of our total business. And today, it is down to single less than 10%.

**Udit Bokaria:** And so when can we expect a bounce back? Because right now, I'm guessing COVID is gone and everyone has started going out. So how are you seeing the traction in this business?

**Rajaram Narayanan:** So I think I will just invite Sharat to speak about it and also clarify on the numbers which are much higher.

**Sharat Narasapur:** The traction is certainly looking positive in terms of albendazole demand. However, we should realize that there is a pressure on the pricing, okay? So that may skew the numbers. But in terms of volumes, yes it is growing.

**Udit Bokaria:** And if you can share like what has the pricing declined mean like in this molecule for…

**Sharat Narasapur:** Well generally, as Raja was mentioning, when the demand has increased, there is an expectation on the pricing. So I can't give you the numbers right now, but then the volumes certainly are growing.

**Moderator:** The next question is from the line of Anand Trivedi from Nepean Capital.

**Anand Trivedi:** My first question is, given the cost pressures in Europe, is there an opportunity to move some of the manufacturing in India and benefit from a lower cost in India?

**Rajaram Narayanan:** I think in Europe, what we manufacture and sell at this point of time, it's more the antibiotic range and the feed range and the nutritional supplements kind of products. And that India from a point of view of supply from here it's not too competitive to be able to do that. There are also it serves local markets over there and therefore, there is the advantage of serving local markets from a manufacturing location over there itself because it's a bit more on the agri side rather than on the pharma side in terms of the consumption channels. So it's not so much of a distinctive advantage to do that in India.

**Anand Trivedi:** And given what's happening in Europe, are there any M&A opportunities that are opening up out there?

**Rajaram Narayanan:** Sorry, can you just repeat the question?

**Anand Trivedi:** Yes. So the question was, given the stress you're seeing in the European markets, just to the acquisition in India, are there any M&A opportunities opening up in Europe that you could look at?

**Rajaram Narayanan:** So from a full-fledged company acquisition, we are always alive to that. But at this point of time, we are not sort of in the play for anything. However, given that we have a strong commercial front end in Europe, not just in Spain but also in Benelux, in Italy, and in Sweden, we are being considered for distribution by some of the large animal health companies. We already today distribute for two of the top 15 companies in these countries, and there are some others who are keen on looking at it, and that is a fairly clean sort of margin-driven accretive business. So that we are actively pursuing and there are opportunities which could come soon.

**Anand Trivedi:** Speaking of distribution, and maybe we'll do it on just in terms of my information, but how is the Zoetis distribution deal going?

**Rajaram Narayanan:** So we do that in India for their cattle range. And it's been a very successful partnership now for maybe two years. And we are growing that business over here in double digits. And we are also getting a lot of support from them in terms of commercial excellence, in terms of sales force excellence, in terms of marketing support. And I think we see that business growing because this is also, therefore, the channel for them to launch any of their new products, which is what we are looking in the next one to two years coming from Zoetis. So it's a double-digit growth business right now for us, yes.

**Anand Trivedi:** Is there a number you can put on there in terms of the INR 55 crores in the first half in India in revenues, how much is from Zoetis?

**Rajaram Narayanan:** So it is roughly around 40% to 50% of our business broadly would be depending on the kind of quarter you are because some of their products are sold at different seasons, depending on the therapy and the disease, but roughly about 40%-odd would be the kind of values in that.

**Moderator:** The next question is from the line of Ashish Thavkar from IFL AMC.

**Ashish Thavkar:** Sir, excluding the constant currency impact, would you like to quantify what kind of revenue growth we have done and also the core EBITDA margin to that extent?

**Rajaram Narayanan:** Raghav, yes.

**P.V. Raghavendra Rao** So Q-o-Q growth in terms of constant currency, you're asking without currency impact, right?

**Ashish Thavkar:** Yes.

**P.V. Raghavendra Rao:** Yes, yes. So Y-o-Y on half yearly basis we grew at 4.5% in Formulation and about at the overall level, it's about 1.2%.

**Ashish Thavkar:** And then had this cross currency impact not been there, what would be the kind of EBITDA margins we would have got to see?

**P.V. Raghavendra Rao:** Yes. Without constant currency basis, we would have grown at 7.5% on the reported sales in H1. So that would, you may at least 2 to 2.5 percentage points. So that's a different number -- difficult number to give immediately. I'll come back to you on that.

**Ashish Thavkar:** Yes. Sure. No problem. Yes. So just one last question. So the journey towards achieving 15% plus EBITDA margins. So currently, the first half you were at 6% adjusted for all the stuff. Would you like to give any time line as to when can we reach those mid-teens kind of EBITDA margins? Would it be two years, three years out?

**Rajaram Narayanan:** Yes. I mean that's certainly our aspiration to get it to that level in the next 4 to 8 quarters, I would imagine that we should be looking but some of it will depend on the actions and how they sort of turn out in the next two quarters. But without giving any sort of guidance, that's certainly is the ambition for us in a two years horizon.

**Ashish Thavkar:** And just one last question. If you do it contract manufacturing space, are you guys tapping some other international customers because the kind of facilities that we have at our disposal, I guess, most of them are underutilized. So any plans as to how you would make sure the utilization levels go up.

**Rajaram Narayanan:** So on the API side, of course, everything is for other customers, and it's a B2B business. And therefore, there are some for which we manufacture, and we search for customers, and there is of course a portion where the CDMO kind of business, where we are specifically developing for customers so that's there. On the Formulations side, certainly in the facilities that we have right now in Europe, as well as in Turkey, we do some manufacturing for third parties in the sense, both some degree of formulations work and packing. And that will continue, but that's more, and any opportunity to fill up any of this capacity provided it's profitable, we would do it. But at this point of time, I think given the overall demand situation, we are not seeing any acceleration in it. We do some bit of it in Europe right now.

**Moderator:** Ladies and gentlemen, due to paucity of time, we will take one last question from the line of Aditya Khemka from InCred PMS.

**Aditya Khemka:** Sir, one question on the acquisition. So how are we going to fund the cash consideration for the acquisition?

**Rajaram Narayanan:** So look, we have a clear plan. Obviously, it's a combination of issue of preferential equity, which we have already declared. In addition to that, there is internal cash generation, as well as some restructuring of intercompany financing, and that's what will happen. That's what will get us into there. And so that's the way we're going to sort of fund it. And more like at closing, you should get a clearer sense of how we would want to utilize the various sources that we have.

**Aditya Khemka:** Understood. And can you talk about the German plant? I think given the crisis in Europe, both on power side and other logistic costs, how do you feel the German plant is doing right now? And what's the utilization there? And what's the plan there? Because the understanding was that whatever we produce in Germany, we are likely to sell in the US. Now with the costs of accelerating in Germany, but not so much in US, is our production in Germany still going to be competitive compared to the local US. production?

**Rajaram Narayanan:** I think there are two components to it. The German plant also manufactures products for sale in Europe and other markets, Emerging Markets. So that part of the business is continuing. The second part of the German plant was to prepare it for manufacturing injectables for the US, and that was we were expecting that we would trigger a US FDA kind of inspection and qualification later in this year or middle of next year.

We're trying to sort of stick to that time line because that would make it a facility, where we would be able to manufacture. There aren't too many places in the world where injectables for animal health products are manufactured even now. So we continue to remain on that. But having said that, there is a cost impact, which has come there in terms of utilities, etc.. So we are scaling back a bit in terms of the cost structure there, manufacturing, and we'll be taking a closer decision on that, more after we are clear when we can do the potential US FDA readiness in the plant. So I think we'll come back to you on that probably more in about six months, when a lot of these moving parts would come in place and then we'll be able to take a better decision.

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

**Rajaram Narayanan:** Thank you very much for all of you who have joined this call. As I said, it is a challenging time for the entire industry. But at the same time, I think it is in these challenging times that it gives us a real opportunity to make some choices, make some cost related decisions and ensure that we are focusing on sustainable profitable growth. And that's what we are doing. We are making sure that whatever we are doing is not completely influenced by the circumstances of today, but we are readying ourselves to become a stronger, more sustainable business. And in that process, there will be the odd quarter, where we will have to chin up and face it, but make sure that we are doing the right things for the future. And that's what makes us very confident that all the actions that we are taking right now will ensure that our SeQuent 2.0 strategy gets implemented. And I think the acquisition of Tineta, the agreement which we have signed is one of the most definitive steps which we have taken in that direction.

So thank you very much for joining and wish you a wonderful time for the rest of the year before we meet. Thank you.

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