

Earnings Presentation Q1FY24

10th August 2023



Disclaimer



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Sequent Scientific – Q1 FY24 Earnings Release



In line with our priority to improve margins, we have continued to make structural adjustments in our Formulations business. The streamlining of our European operations is nearly complete with the discontinuance of manufacturing operations in our Germany facility and portfolio restructuring in Spain. We have begun to see consecutive quarters of improved profitability in this region. In Turkey, the impact of recent economic conditions have impacted the quarter's results. However, we have rapidly implemented aggressive pricing actions, which will bear results in the coming quarters.

Our program for driving operational excellence in APIs is on course and we expect to see steady margin improvement. Our manufacturing footprint has been further optimised with the discontinuance of manufacturing operations in Tarapur. We continue to lay a strong emphasis on conducting regular training programs, safety audits and behavioral interventions, which are supported by a fully equipped occupational health infrastructure. During the quarter, we had 3 customer audits, all of which were successful. Further, our Mahad facility successfully underwent a WHO Geneva pre-approval inspection. While Q1 FY24 has seen muted performance in sales on account of some calendarization of business and transitional connectivity challenges as we undertook network optimization during the quarter, we expect acceleration in revenues and margins during the year. In Q1, we have successfully commercialised a new custom generic and obtained a new CEP filing. This takes our aggregate filings to 30 USVMFs and 17 CEPs.

While the overall market environment will continue to throw up surprises, our definitive actions around optimising structural costs and investing in new products and partnerships will help us deliver profitable growth during the second half of year FY24.





Q1 FY24: Key Highlights



Europe portfolio reshaping on-track
Continuing improvement in Gross margin and reduction in OPEX



Emerging Markets – **Significant** price hike in Turkey to start reflecting towards end of Q2



Network optimization – Discontinued manufacturing ops in Germany facility; tech transfer to Turkey / CMOs on-track



Project Pragati – Implementation of API cost excellence programs ongoing to drive EBITDA improvement



Vizag capability augmentation – Closed out key positions, undertook plant revamp



Network optimization – Discontinued manufacturing ops in Tarapur API facility; one time impact on financials





Q1 FY24: Revenue Performance – by geography

All values in ₹ Mn



Revenue Distribution	Q1 FY24	Q4 FY23	QoQ Gr%	QoQ Gr% (In cc)	Q1 FY23	YoY Gr%	YoY Gr% (In cc)
Formulations	2,478	2,559	(3.2%)	(4.0%)	2,460	0.7%	(2.1%)
Europe	1,172	1,146	2.3%	0.9%	1,048	11.8%	2.7%
Emerging Markets	1,052	1,201	(12.4%)	(12.9%)	1,175	(10.4%)	(9.5%)
India	254	213	19.4%	19.4%	237	6.9%	6.9%
APIs	807	941	(14.3%)	(14.3%)	886	(8.9%)	(13.6%)
Other Sales	35	10	NM	NM	37	(6.5%)	(6.5%)
Global Sales	3,320	3,511	(5.4%)	(6.1%)	3,383	(1.9%)	(5.1%)
Adjustment* - Ind AS 29	12	156			30		
Reported Sales	3,332	3,667	(9.1%)	(6.0%)	3,413	(2.4%)	(5.1%)

cc - Constant Currency

*Adjustment on account of hyperinflation in Turkey as per Ind AS 29

NM – Not Material

- **Europe:**

- Spain portfolio restructuring on-track; continuing improvement in Gross Margin; Benelux and Sweden showing steady growth

- **Turkey:** Weakness due to currency depreciation and inflation; Compensatory price increases taken in Jun-23

- **India:** Sequential recovery owing to low base in Q4, a seasonally weak quarter; Maintaining a sharp portfolio focus and commencement of footprint expansion

- **API:** Transitional connectivity challenges due to network optimization, and some quarterly variability of shipments. Annual plans unaffected.





Formulations Q1 FY24: Sustained performance in Europe and India; Turkey impacted due to economic challenges

Key Updates

EUROPE:

- Portfolio reshaping ongoing – continuing improvement seen in Gross Margins
- Discontinuance of Germany manufacturing operations; tech transfer to CMOs and Turkey facility on-track

EMERGING MARKETS:

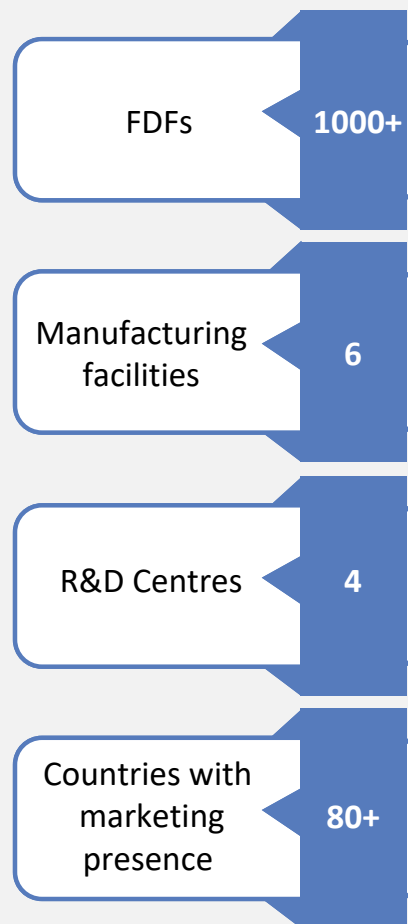
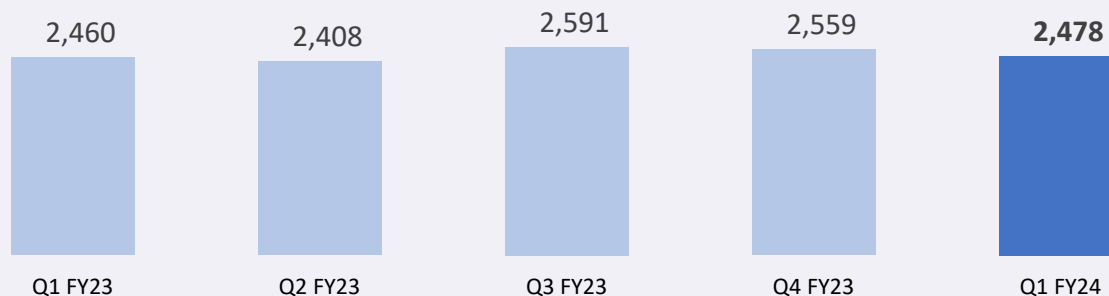
- Turkey business impacted by currency depreciation and inflationary pressures; announced a substantial compensatory price hike in Jun-23 which is expected to reflect towards end of Q2

INDIA:

- Sequential growth driven by low base in Q4, a seasonally weak quarter; maintain sharp portfolio focus and have undertaken footprint expansion, field force engagement initiatives

Operating Revenues

All values in ₹ Mn



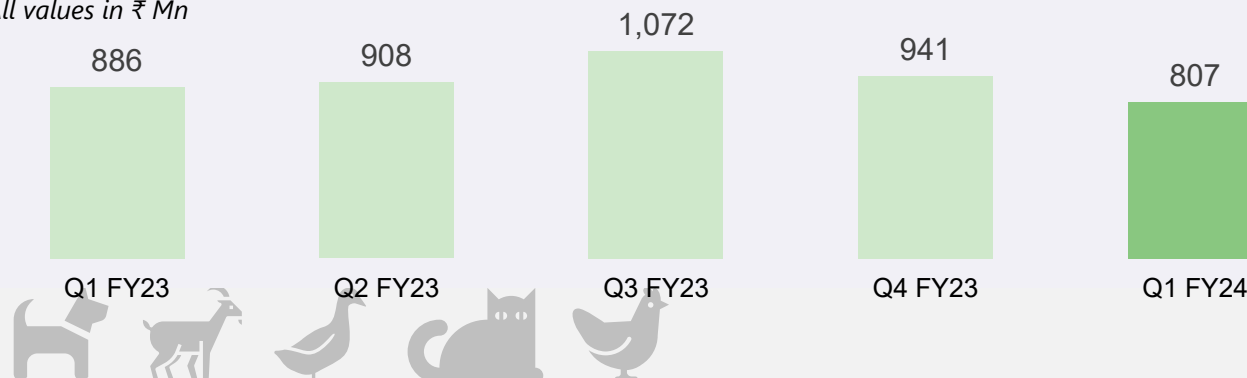
API: Getting reshaped for profitable growth; challenging quarter but on-track for sequential improvement in Q2

Key Updates

- In line with our network optimization objective, we discontinued manufacturing operations at the Tarapur plant; transitional connectivity challenges led to revenue decline; these have now been resolved and no annual revenue loss is expected. May, June operational performance saw improvement vs April; also saw some shipment-related quarterly variability in Q1
- Comprehensive margin and operations improvement program (Project Pragati) – initiatives on-track to reflect meaningfully in P&L in coming quarters
- Vizag plant capability augmentation: Made key additions to the team; plant revamp undertaken during the quarter
- Expanding business with a Top 3 Global Animal Health formulator – successfully commercialized a customer generic molecule in Q1 and obtained CEP approval for another
- Continue to leverage a total of 30 USVMFs and 17 CEPs to drive growth

Operating Revenues

All values in ₹ Mn



Commercial APIs

30+

Manufacturing facilities

2

R&D Centre

1

Financials





Consolidated Financials

All values in ₹ Mn

Particulars	Q1 FY24	Q4 FY23	Q1 FY23
Revenue from Operations	3,332	3,667	3,413
Material Consumption	(1,948)	(2,217)	(1,967)
Gross Margin	1,384	1,449	1,446
%	41.5%	39.5%	42.4%
Employee Benefit Expenses	(578)	(570)	(554)
Operating Expenses	(713)	(751)	(691)
EBITDA (pre-ESOP)	93	128	201
%	2.8%	3.5%	5.9%
ESOP cost	(64)	(76)	(91)
EBITDA	29	52	110
%	0.9%	1.4%	3.2%
Exceptional Items / Acquisition cost*	(235)	(616)	(32)
IndAS 29 Adjustment	(27)	(56)	(40)
Exchange Gain / (Loss)	(84)	(30)	(49)
Other Income	8	17	9
Finance Cost	(105)	(109)	(68)
Depreciation	(142)	(147)	(139)
Earnings Before Tax	(557)	(888)	(209)
Taxes	210	(36)	56
Earnings After Tax	(347)	(924)	(153)
Minority Interest	2	11	(4)
Earnings after Minority Interest	(348)	(936)	(150)

- Exceptional items:
 - *INR 207mn pertains to domain expert fees towards revamping of API Manufacturing Operations*
 - *INR 28mn towards Tarapur settlement pay, asset write-downs*
- One-offs related to network optimization in Germany and Tarapur currently reflecting under employee and operating expenses; not adjusted in EBITDA



Key Balance Sheet Items

All values in ₹ Mn



Particulars	Jun-23*	Mar-23*
Shareholders' Funds	6,240	6,981
Minority Interest	505	500
Net Debt	3,678	3,561
Investments	3	0
Tangible Assets	3,478	3,521
Intangible Assets	2,867	3,085
Working Capital	3,668	4,261

*Jun'23 & Mar'23 reported numbers are adjusted for impact of hyperinflation accounting in Turkey as per IndAS 29 - 'Accounting for Hyperinflationary economies'







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**Thank
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