"Sequent Scientific Limited
Q1 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Sequent Scientific Limited Q1 FY2019 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 the Abhishek Singhal. Thank you and over to you Sir!

Abhishek Singhal: Very good morning to all of you and thank you for joining us today for the SeQuent Scientific's Earnings Conference Call for the first quarter of financial year 2019. Today we have with us Mr. Manish Gupta, Sequent's Managing Director and Mr. Tushar Mistry, CFO to share the highlights of the business and financials for the quarter.

I hope you have gone through our results release and the quarterly investor presentation, which have been uploaded on our website as well as the stock exchange website. The transcript for this call will be made available in a week's time on the company's website. Please note that today's discussion maybe forward-looking in nature and must be viewed in relation to the risk pertaining to our business. After the end of this call in case you have any further questions, please feel free to reach out to the Investor Relation team. I now hand over the call to Manish to make the opening comments.

Manish Gupta: Thank you Abhishek. A very warm good morning and welcome to all of you and thanks for joining us in this call in a very busy schedule of the period because of the result season. I am joined by my colleagues, Sharat Narasapur, who is our Joint Managing Director and Heads all our Technical Operations including R&D, as also our CFO, Tushar Mistry.

To begin with I will start with a brief overview on the developments of the quarter and also some of the financial performance during the period. We will follow it up with the Q&A session and happy to take all the questions. In case I become inaudible at any stage during this call, please let us know.

To begin with let me take a step back and give you a perspective of what we have achieved over the period. As some of you are aware we are in the fourth year of our strategy of creating a valuable business in the space of animal health and have already emerged as the largest and the first truly global animal health company from India with an annual run rate of about $150 million in revenues.

In these four years, we have transitioned the business from an India centric business to one with global footprints, from the API led business four years back to a formulation led business as also one focused on less regulated market which was our strategy four years back to a highly regulated market driven strategy now. We have completed and successfully integrated eight acquisitions around the globe and we are also proud to have built up the first and the only US FDA approved animal health API facility in India which is at Vizag.

We now incidentally have the largest API filings in US amongst all generic companies globally and have also put us in a very strong position in this dramatically changing API environment led by the China factor. We also have had an extreme focus on execution and have been consistently delivering improved operational performance over last many quarters; however, I must admit that there is a lot to be done in this regard though all the foundations are in place for the same.

We are now moving in the next phase of value creation, which will be driven by our expanding R&D portfolio in formulations. As we speak, we are working on over 35 formulations, which have been bolstered out by our recent acquisition of Bremer in Germany, which has allowed us to develop a comprehensive injectable strategy.

We now have very strong R&D capabilities established both in India and in Spain which are also aided by robust manufacturing footprint in India, Spain, Turkey, Germany and Brazil. You would have also read of a recent approval of Turkish facility by the EU authorities and that clearly will add another wing to our globalization strategy.

Now let me run through some of the financial performance parameters for the current quarter or for the recent quarter. The total revenues for the reporting quarter grew by about 21% to about 235 Crores. Our EBITDA came in at 25 Crores, which represents or reflects a 70% growth over last year aided by a 300-basis points margin improvement. Significantly our net profit for the quarter stood at 3.3 Crores which is more than the entire last year.

On the regulatory and R&D front there are many positives to report from Sequent. We received EIR for our Vizag facility for the recent inspection in March 2018. Our Turkish facility got the new approval and also we made certain significant filings in US and EU for both our API and formulation businesses. Our API business is gaining momentum. The business grew at over 15% during the quarter and certainly the environment now is getting more and more conducive for the API business going forward.

We are actually seeing a significant traction in our API business with the global top five, which now contributes almost 30% of our API revenues. On the formulations front, as you would have seen from the investor deck, we have grown across all geographies and all regions backed by our existing portfolio and also aided by about 10 new product introductions that occurred across various geographies. We shall be making a beginning in two key markets of France and Ukraine in the rest of the year.

Our recent acquisition of Bremer, of course which I have explained, has enabled us to create a comprehensive formulation development program, which now includes injectables in a big way, this program also includes a very strong and robust US program including some first time generics because of our comprehensive or integrated API and formulation strategy. We expect our first formulation filing in US within next 12 months. Overall, we believe we have laid a very strong foundation and are ready for our next phase of growth, which is to deliver FY2022 ambition of being amongst the global top ten in a world driven by relentless focus on our execution.

Thank you very much we are now ready to take questions.

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

Vishal Manchanda: Good morning. Thanks for the opportunity. Just wanted to understand in more details the impact of the Turkish currency depreciation on your operation, is all the impact – cash impact or it is translational basically.

Manish Gupta: Fundamentally it is a translational impact, but Tushar would you like to add to the same.

Tushar Mistry: The Turkish depreciation as Manish mentioned has only a translational impact on the operating financials and does not have any cash impact per se. The entire operations based out of Turkey **is majorly in local currency and** so that way it is seen as only a translational impact.

Vishal Manchanda: And do you have debt in your Turkey operation basically the Turkish subsidiary?

Tushar Mistry: Minimal right now so the impact of that is not substantial on the financials.

Vishal Manchanda: Another one is related to your employee expenses that have gone up about 20% Q-o-Q so is all that related to the annual wage hike or some of it is basically bonus component and will reverse in the coming quarter.

Manish Gupta: No so fundamentally they are not comparable because of Bermer acquisition. The Bermer cost has of course got added my guess is roughly about 5% to 8% would be the increment aspect and rest would be driven by Bremer integration or acquisition.

Vishal Manchanda: So basically an 8% to 10% annual increase is to be built in the model the rest is basically inorganic that we have?

Manish Gupta: No, 8% to 10% I think will be too substantive because obviously a large part of our work force is outside India wherein the increments are in the region of between 1% to 2% so collectively I think between 5% and 7% would be a good indicator in terms of built up of cost.

Vishal Manchanda: And one more can you give some colour on basically the price increase and volume increase in your business so what part of the growth has come from price increase and what volume increase.

Manish Gupta: You are referring to the API part of business.

Vishal Manchanda: No, across so basically also wanted to understand the formulation part of the business, whether you can take price increases in your formulation business or that is not the trend in animal health business?

Manish Gupta: Actually it is very different from human health in that way, typically across all geographies you take price increases which is slightly ahead of the inflation in the local countries so price increases work in animal health being a branded generic industry. It is always a little ahead of the inflation in those countries so therefore it will vary from country-to-country. As far as the API business is concerned, a lot of our growth is coming from, I would not say price increases but, better quality customers and high priced products. It is not a volume led growth because that is a core element of our strategy, of kind, of converting all our business from lesser-regulated markets or lower price business to a higher price business.

Vishal Manchanda: So basically is the raw material inflation is on the API side also contributing to the price increase so basically what the raw material inflation that you are facing, you are passing it onto the customer or it is also contributes the price increase is also contributing to better margin?

Manish Gupta: The price increase is certainly contributing to better margins because of the quality of customers and/or market but certainly it is also, so obviously our pricing to the regulated markets not only compensates for the cost increases that we are facing but also considers the value creation that we are delivering for them in terms of compliance. So certainly it is a better margin business we are going after.

Vishal Manchanda: Capacity utilization you would still have scope on volumes from capacity perspective.

Manish Gupta: I do not see any challenges for next 24 months.

Vishal Manchanda: I think I will join back the queue. I have few more questions.

Moderator: Thank you. We have the next question from the line of Neelam Punjabi as an Individual Investor. Please go ahead.

Neelam Punjabi: Thank you for taking my call. Sir we have been guiding to a 200-basis point EBITDA margin expansion annually. So last year we had a 10.3% margin so for FY2019 can we expect to deliver the 12.5% margin on a year-on-year basis?

Manish Gupta: Well very difficult to predict the full year outcome in this very volatile environment but we feel confident of what we have been targeting for. So as of now I do not see any reason, not to achieve the targets that we have set for ourselves.

Neelam Punjabi: Can you please help us understand this regulatory impact of 9 Crores in the EBITDA for the Turkey business that you have mentioned in the presentation?

Manish Gupta: If you look at our numbers closely, especially between Q1 and Q4 (last quarter), Turkey delivered about 40 Crores in terms of translated revenues in INR, which has dropped to about 23 Crores in this quarter. Now the fundamental reason for this drop is not anything else, but Turkey has aligned their entire control, if you recollect there has been lot of conversation on use of antibiotics or abuse of antibiotics across the globe. So turkey has aligned their entire system with the EU way of working, wherein the API is tracked right from the time it is imported into the country till the time it is consumed at an animal level. There is a complete traceability of usage to avoid abuse and every animal in Turkey is tagged so there is a tag on the ear of the animal. So therefore everything that is happening in the country can be tagged right form what you import to what you convert into a formulation and then what is prescribed and that prescription has to be traced to the final animal in terms of consumption to avoid any potential abuse or misuse of the antibiotic. Turkey has adopted that from last quarter, which certainly had initial hiccups and implications because the inventory in the system had to be corrected in a way, so there was a trade impact of that and therefore primaries were impacted during the quarter. We believe a major part of that is already been done. However in Q2 also we expect the same trend to continue before normalcy is restored in Q3 and Q4 therefore for last quarter and this quarter I believe our base would be about 23 Crores of sales in Turkey before it recovers to 40 Crores in the rest of the quarters for the year.

Neelam Punjabi: Okay that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Sai Kiran Pulavarthi from RW Investment Advisors. Please go ahead.

Sai Kiran Pulavarthi: Three questions; one on the emerging markets. What is contributing for such a high 40 plus kind of a growth? The second question when do you see Bremer company is back to the EBITDA margins of the rest of the formulations business? Finally if you can just explain would be what time frame do you expect the turkey to come back to the normalcy? Thank you.

Manish Gupta: See coming to emerging market if you look at the growth which is reported as 40% and 37% on constant currency basis clearly there is an element of Bremer in that because Bremer has a fairly robust emerging market business. If you split for Bremer, I think it will drop to about 19% so our emerging market has grown at 19% on a like-to-like basis on constant currency basis, which is still significantly ahead of the industry or market growth rate and this is clearly aided by new product introductions that we have been doing across various geographies. What was your second question if you do not mind repeating it?

Sai Kiran Pulavarthi: Yes so the next question is right when do you expect the Bremer coming back to the EBITDA margin for the company level, how do you see the EBITDA margin expansion happening in the Bremer?

Manish Gupta: Certainly we have worked out both the short-term and the long-term strategy for Bremer. What can deliver a turnaround in Bremer EBITDA margins is emerging markets in the short run we expect that to kind of show up in our operating performance by Q4 of the current year. So we expect Bremer to be EBITDA positive by Q4 certainly the larger expansion will occur once the regulated markets come in the place which will take probably another 18 months or so.

Sai Kiran Pulavarthi: Finally on the Turkey side when do you expect the normalization to happen?

Manish Gupta: Yes, so Q3 we expect normalization in terms of the regulatory impact and the sales should ramp back to the original levels.

Sai Kiran Pulavarthi: Just to add on the Bremer so the majority of the Bremer sales are in the emerging markets and the minor proportion is in Europe is my understanding right if you can just let me know what the kind of Europe to us constant currency growth existence of the whole?

Manish Gupta: Yes that is I think adjusted for Bremer the European growth would be in the region of 13% on constant currency basis.

Sai Kiran Pulavarthi: Great, thanks a lot. That is it from my side.

Moderator: Thank you. We have the next question from the line of Jigar Valia from OHM Group. Please go ahead.

Jigar Valia: Thanks for the opportunity. I have a few preliminary questions on the turkey business wanted to understand if there is any export business out of Turkey or is it all within Turkey?

Manish Gupta: Roughly about 20% of sales from Turkey would be in the other markets outside of Turkey but in the neighboring region of MENA.

Jigar Valia: With this EU approval, would it be fair to understand that it would be for the use for how relevant is this EU approval from Turkey does it and with this will cater only to the production elements or we will also start catering to companion animals outside of Turkey?

Manish Gupta: If you look at this approval fundamentally turkey has eight manufacturing lines and has multiple capabilities outside of standard injectables. So therefore it gives us a great lever to strategize between the portfolio that we have between Bremer and the Turkish facility for commercialization around the globe. So it is a very relevant approval, I cannot disclose specifics around it, however it will be a very important driver for us going forward.

Jigar Valia: There will be enough capacity to capitalize on this approval within at the Turkish manufacturing?

Manish Gupta: Certainly capacity is always a game, which you keep adding up. It is all about not fundamentally changing the capacities but about adding some faster speed lines so it is always a little debottlenecked that is required which is an ongoing process; however, I must warn you that there would not be any impact in the next 12 to 18 months of any of these approvals because by the time product approvals come though it will take us at least 12 to 15 months.

Jigar Valia: Just to understand on this currency impact you believe that this is temporary and it will reverse back or would you look at as a new steady state normal. Secondly would you look at the currency depreciation as an opportunity to add investments in that region?

Manish Gupta: For the first question, I think you will have to ask Mr. Trump and Mr. Erdogan they are probably the best judge of the situation. I think our Head of Turkey business was here yesterday and clearly the business continues as usual locally. In fact market is getting more and more attractive because clearly some of the lesser players are under pressure so therefore for us it is a great opportunity. In fact, we may be looking to further strengthen Turkish operations because lot of brands and lot of opportunities are available in terms of stressed assets and Turkey is a very healthy balance sheet as far as local operations are concerned for us. So therefore actually we believe it is a great opportunity right now; however we do not have any way on the environment because it is too unpredictable.

Jigar Valia: Net-net does turkey import a lot of raw materials is it net exporter?

Manish Gupta: I think I do not have off hand numbers but clearly as is true with the entire world a lot of APIs come from India and China but API cost in the Turkish operation is less than 30% of their topline. So net-net I think their exposure will be very minimal because 20% I told you is exports for Turkish business.

Jigar Valia: Thank you.

Moderator: Thank you. We have the next question from the line of Vipul Shah from RippleWave. Please go ahead.

Vipul Shah: What was the free cash flow during this quarter on a consolidated basis?

Tushar Mistry: If you see we have given some balance sheet numbers as well while the cash component remains constant we have also acquired Bremer during the quarter and some loan repayments have also happened so net-net the cash position has been pretty healthy almost I would say we have ended up using between 25 to 30 Crores of cash into the future kind of investment which are all through internal accruals.

Vipul Shah: So is it fair to assume that the operational cash flow would be to the number you are alluding to which is 25 to 30 Crores?

Tushar Mistry: The operating cash flow will be in the range of between 15 and 20 Crores I would say.

Vipul Shah: Secondly while lot of clarity has emerged today on the Turkish side would appreciate if you can give some perspective on the Brazilian operations because back there also we saw a comment that there was depreciation in the Brazilian currency which had an impact?

Manish Gupta: I will let Tushar speak on it, but before that to give you Turkey and Brazil are not exactly the similar situations, because Turkey clearly is a larger problem from a currency perspective, Brazil was a smaller problem and it has already started correcting. In fact it has recovered a lot since we last reported the quarter end. So Brazil is not in that kind of a situation, which Turkey is politically and of course our exposure, is also very, very small there.

Tushar Mistry: Brazil accounts for less than 8% of our overall financial. So the impact on the overall financials is very limited.

Vipul Shah: Thank you.

Moderator: Thank you. We have the next question from the line of Piyush Saraogi from Plutus Wealth Management. Please go ahead.

Piyush Saraogi: What according to you can hold you back from attaining the materials next year's material margin EBITDA margin?

Manish Gupta: Piyush can you repeat the question; the line was not very clear?

Piyush Saraogi: Yes sure. What according to you can hold you back from attaining the FY2019 EBITDA margin?

Manish Gupta: See Piyush fundamentally if you see our business model and more so the animal health business model because we are only a participant in that given the nature of industry, which is branded generic which does not undergo pricing pressure and too much competition we are very confident of delivering an operating performance. The only thing which we have no say on or have limited control on is the currency translation impacts that may come in. The only other element which I can probably see which can have some negative challenges is pertaining to supply chain because China situations is very fluid, it is emerging, I do not think we have seen the worst of the situations yet so while we are on top of it and so far we have managed it very well I believe we are actually taking many proactive steps to be ahead of the curve and take it to our advantage but that is an area which keeps coming as a surprise for any player which you may checkup with.

Piyush Saraogi: Okay totally got it.

Moderator: Thank you. We have the next question from the line of Sajan Didwania from Frontline Capital Services Limited. Please go ahead.

Sajan Didwania: Good morning Sir. Thank you for giving me opportunity to ask you a question. My first question is how much is the impact of Bremer in this quarter on topline, EBITDA and bottom-line?

Manish Gupta: It is in the financial actually. It is there on slide #6 of the investor deck that our business has grown at about 14.5% without considering Bremer impact and it is also in the financials as well with the complete detailed working of how much sales and EBITDA contribution has come from Bremer during the quarter. Yes Tushar.

Tushar Mistry: So sales topline is about 12.8 Crores and profitability of around loss of 45 lakhs is what has been reported.

Sajan Didwania: Another question I just wanted to put. What type of capacity utilization we are into so in coming future what type of growth we can expect due to lower capacity utilization right now.

Manish Gupta: As an overall business purely on an organic basis we are targeting a 15% topline growth on a year-on-year basis. I do not foresee any capacity challenges except certain debottlenecking that will be required ongoing to achieve that kind of growth for the next two years.

Sajan Didwania: What type of growth we are expecting due to value addition in the regulated market higher prices will increase the growth did this 15% you said overall or due to the capacity utilization?

Manish Gupta: Let me split it into two parts of growth. Our API business in the short run will be the fastest growing business we foresee it to grow anywhere in the region upwards of 20% in the medium-term as we derive benefits of the regulated markets or US markets of top five companies that we have been focusing. On the formulation business in the short run we will grow anywhere between 12% to 13% on as is basis, which is the organic growth. The real fillip in that will start coming probably two years down the line once our new formulations that are currently under development start commercializing because we are at least two years away from major commercialization's in the US market and that can expand this growth number. It is very difficult to predict at this stage but it will be certainly very, very significant.

Sajan Didwania: One more question, I just wanted to put here, that whether company is looking for any further acquisition in near future?

Manish Gupta: Very difficult to say that. As I have been maintaining consistently clearly US and Australia are two strategic gaps in our formulation strategy, which are very important veterinary or animal health markets in the world through either organic or partly inorganic strategy that is something we need to fix in the next 12 to 18 months. Clearly, we are not going to shy away from acquisitions if needed to establish our footprints in these markets.

Sajan Didwania: Thank you very much.

Moderator: Thank you. We have the next question from the line of Sonal Biyani from Basic Routes. Please go ahead.

Sonal Biyani: Congratulations Sir on good set of numbers. I have just one question Sir which is continuation of the previous participant's question I wanted you to briefly touch up on our strategy going forward in terms of, do we have the final strategy for our regulated markets such as US, Australia and we to be having other acquisitions in the pipeline considering that anywhere if we are going to be inline by the end of the financial year?

Manish Gupta: Very good question Sonal. Basically we need front-end organization in US and Australia and certainly within next 12 to 24 months as our products start getting approvals in those markets so one way of doing it through organic strategy which is fairly expensive because you need to establish a field force even if you are grappling with one or two product approvals. Therefore certainly we are working towards getting the right front-end organization in both these markets potentially through acquisitions which will shape up, we will obviously be able to give you specific color whenever we are in a stage wherein we are ready to declare or announce that, but we are working on it. That will be our largest area of focus as far as the acquisitions or inorganic strategy is concerned for the next 24 months.

Sonal Biyani: Thank you Sir. That is all from my end.

Moderator: Thank you. We have the next question from the line of Akshay Badjate from Rubicon Capital. Please go ahead.

Akshay Badjate: Thanks for taking my question. Sir my question is primarily on understanding our P&L and what is the variable component. So basically I was trying to understand what is the operating leverage that will kick in over the next few quarters without considering of what might happen with our formulation strategy in the regulated markets two years down the line?

Manish Gupta: I will give you the broad answer and then Tushar if you can add to it. As a leader, I see about 75% of our operating expenses is fixed and about 25% of our operating expenses as variable. So clearly because of the branded generic nature of the industry there is a significant operating lever going forward as we scale up our operations. Now coming to see one thing you have to bear in mind is as we gain further traction in the regulated markets and more so in US it is not only the operating lever that we play out but even the gross margin lever will play out, certainly the gross margins in US for both API and formulation businesses are way ahead of the margins that you get in other markets. So we actually at operating lever will clear out at the operating expenses level for the next two years and will start playing out at the gross margin level once we commercialize more and more products in US especially in the formulation side. Tushar if you would like to add anything.

Tushar Mistry: No I think you have nailed it rightly, Manish.

Akshay Badjate: So my second question is on our API business so to what extent are we integrated, backward integrated for our API pipeline?

Manish Gupta: Again if you look at it where we are today, virtually our API strategy is a distinct strategy from a business perspective. It is not linked to our formulation strategy so we maybe consuming less than 2%

of our APIs internally; however, our pipeline strategy because 10% of formulations are under patent in the veterinary space, that is where an integrated strategy is being worked upon so we will be developing those APIs, those may not be offer to competitors and will be use for our own formulations to make us unique in that formulating space.

Akshay Badjate: Sir my question was more from the angle given the recent issues like China supplies and given that the we have been facing raw material pressures not only us but almost all other API players are facing raw material pressures so that is where sort of I wanted to understand where are we on this are we looking to build a backend presence to make raw materials in-house or will we continue to source them from outside?

Manish Gupta: No it will be a mix of both I think. Certain KSMs or intermediates we will be trying to control or take charge internally some will be through strategic relationships with some other intermediate suppliers but certainly we are looking at developing more and more in India rather than relying on China.

Akshay Badjate: My last question Sir if you know on our Forex exposure so we try to form a global company, how do we think our emerging basket will sort of play out and what will we do to ensure that something like what has happened in the Turkey or the Brazil should not meet going forward?

Manish Gupta: So see one thing and I will first respond business wise and then Tushar can response financially. See if you look at our business model, it is not India export strategy. The Brazilian business is made in Brazil for Brazil. The Turkish business is made in Turkey for Turkey. And that is the way it works in animal health excepting our API business which is India out strategy all other businesses are fundamentally localized strategy so therefore excepting for translation we do not have any exposure to forex movement. So structurally the business is not exposed to Forex movements having said that Tushar if you can add.

Tushar Mistry: Yes, and as Manish rightly put it all our businesses have local currency exposures only so they generally deal in the local currencies and do not have significant exposures to inter-currency forex fluctuation. So we only have impact on the translational losses if at all, which as far as P&L is concerned it is not that significant I would say but also it gives us a lot of opportunity looking at the business overall and helps us explore this bucket with much better pricing that we get into this markets.

Akshay Badjate: That is it from my side. Thank you.

Moderator: Thank you. We have the next question from the line of Prashant Hazariwala as an Individual Investor. Please go ahead.

Prashant Hazariwala: Good morning Sir. Congratulations for a good EBITDA margin. My question is that we have taken some 9 Crores of impact with the Turkey regulatory impact on EBITDA right so is this kind of impact will continue for next quarter.

Manish Gupta: Probably in Q2 it will continue before it restores to normalcy in Q3 and Q4.

Prashant Hazariwala: And what kind of impact if you are looking at 9 Crores kind of thing?

Manish Gupta: Difficult to predict but it will not be very different is what I would assume at this point of time.

Prashant Hazariwala: How this 9 Crores like you have done lower turnover in Turkey right and what is this 9 Crores exactly because I could not understand this thing. 9 Crores will be fine the lower turnover will be fine because of regulatory impact of 9 Crores of EBITDA impact this is because of what like due to inventory write-off what kind why we get 9 Crores of impact?

Manish Gupta: I think probably this requires better explanation from our side and sorry for not being very clear in the deck. Fundamentally if you look at the current year vs run rate for last year end our run rate in Turkey has been about 40 Crores per quarter which has dropped to 23 Crores in this quarter because of this regulatory impact in terms of revenues, the 17 Crores loss of sales that is occurred or between sales which is the temporary phenomena has cause this 9 Crores odd dip in EBITDA because at that level of sales fundamentally sales minus GC translates into EBITDA, that is why there is a 9 Crores impact of dip in sales from 40 Crores to about 23 Crores. It is in a way notional impact of loss in sales as the sales recover back to 40 Crores between Q3 or Q4 our EBITDA automatically will go up to that extent is the statement we want to make.

Prashant Hazariwala: So you mean to say like we have consumed material but we have not sold the product that is what you mean to say.

Manish Gupta: No this is like an opportunity loss because of the change what we are saying is we have reported an EBITDA of 25 Crores. Had this regulatory change not happened in Turkey probably our EBITDA would have been up by almost 8.9 Crores on normalized sales basis.

Prashant Hazariwala: So it is as an opportunity cost kind of thing right we were earlier assuming what was done is that it is basically difference between these two right?

Manish Gupta: That is correct.

Prashant Hazariwala: What kind of impact we do see because of this API business all these problems are going on is it positive on our business or is it negative on our business?

Manish Gupta: Certainly, I believe it is a big positive because clearly there is a lot of API businesses are facing lot of challenges but what is good about it is suddenly the world has woken up to the China factor and lack of reliability of Chinese supplies. So personally we are seeing more and more enquiries we are also seeing no conversation on price as far as customers are concerned they want to ensure availability rather than having a price conversation. So in my view API business will see the best times in the next two to three years.

Prashant Hazariwala: Are we planning any capacity expansion in Vizag because you just say that we still have 24 months more to go like we can do our targets for 24 months time. So are you planning anything on the API side?

Manish Gupta: We do have sufficient capacities excepting for debottlenecking and marginal course corrections that you would need to undertake otherwise we are fully invested or adequately invested for next two years.

Prashant Hazariwala: If you want to plan expansion how many months it will take to expand API?

Manish Gupta: No actually the base is already in place. All we need to furnish it and would take – so if we decide to add capacities will take about 12 months not more.

Prashant Hazariwala: I was saying like you guys are doing good job from FY2014 since today it is a big conversation of the business is going on. All the best on this front that is it from me. Thank you.

Moderator: Thank you. We have the follow up question from the line of Sonal Biyani from Basic Routes. Please go ahead.

Sonal Biyani: I have two or three of them sir. The first question is that we have invested close to 180 Crores in our Vizag API facility so what are the kind of peak margins that we can expect from this facility and also asset turn to that we have these launches and can you give us some ideas of these timeline?

Manish Gupta: Sonal, some of the questions that you have asked is slightly proprietary. I would not like to disclose some aspects of it, but we do foresee at least a two times asset turn on this business in the next two years time, which should make it about 350 to 400 Crores of revenue coming out of this facility. I would refrain or shy away from giving you a margin guidance. It is there and will be very valuable business is all I can say.

Sonal Biyani: Sir and we have often spoken that we have been amongst the top ten global animal health players so at what topline do we expect to hit is today stand what were the margins look like at that point of time?

Manish Gupta: Again without getting into specifics, the number ten player in the industry is about $300 million, which gives an indication of what we are targeting in next three years so we need to kind of double our revenues from where we are. In terms of margins, clearly the industry margins are upwards of 25%. I do not think we will get there because we will still be subscale to some extent and some of new products would not have commercialized till then but we will be certainly closer to the 20s range compared to the 10% range that we are operating today.

Sonal Biyani: Sir my last question is, if we look at Zoetis margins they are doing close to a 30% EBITDA so would we be able to achieve those margins or is our business different from the way they operate and what is the difference?

Manish Gupta: Zoetis certainly has a fair amount of what I would say proprietary or patented products as well so clearly they enjoy probably slightly ahead of industry margins I would say. I do not think we can aspire to be in that range because that now actually closer to 35% as we speak. I do not think we can aspire to have those kinds of margins but once we achieve certain critical scale upwards of 25% is easily doable in our kind of business.

Sonal Biyani: That is it from my end. Thank you Sir.

Moderator: Thank you. We have the follow up question from the line of Sai Kiran Pulavarthi from RW Investment Advisors. Please go ahead.

Sai Kiran Pulavarthi: Just continuing with the last question that the API business you mentioned around 360 Crores could be the topline and going with the current run rate we are at somewhere around 240 Crores which essentially need that the capacity utilizations are somewhere around 70% so do you expect the capex coming in for this API facilities for the next year also, if not what will be your what I can say your thought process on the capacity expansions especially on the API? Second question is like what will be the capex for the overall FY2019 expense? Thank you.

Manish Gupta: Yes, as I said we still have about 30% to 40% headroom for growth from our current facility. We have five clean rooms in that while the entire space has been built up for eight clean rooms so if and when we need to expand all we need to establish is certain amount of clean rooms for which the infrastructure including the building already exists. So it will be an incremental capex in that regards if things really work out very well which I can foresee given the current environment we may look at it in next 12 to 18 months time. But as of now we have not taken that call because what happens in China I do not know eventually. What was your second question please?

Sai Kiran Pulavarthi: The capex number for FY2019 at the group level, at the consolidated level?

Manish Gupta: I would say between 20 and 25 Crores.

Sai Kiran Pulavarthi: 20 to 25 Crores right.

Manish Gupta: That is correct.

Sai Kiran Pulavarthi: One last question you mentioned multiple times about the China impact and other stuff. Can you just little more elaborate what are you guys seeing and what will be the impact on the overall scheme of things. Of course you mentioned that lot of enquires coming in from lot of global players and the pricing is the last thing, which they are looking at but if you can just see little more specific what is happening on the supply side from China what the Chinese authorities are looking at that will be really helpful? Thank you.

Manish Gupta: I will have my colleague, Sharat respond to it because he is losing lot of hair on this.

Sharat Narasapur: What is really happening in China is as far as our portfolio is concerned, there are about 30% of the products where the pressure is high there is lot of uncertainty. So basically there we have a strategy of backward integration and our R&D has been engaged into derisking this part of the supply chain and we have already great headway in that. So that way we have derisked 30% of the molecules, but we do not know what happens in future, because this crops up suddenly so we will have to keep our fingers cross and basically have molecules in portfolio to replace that. So that is a kind of strategy we are following, but so far so good we have been able to manage the situation but we will have to be on our close and in that way we have augmented our R&D also and have been working proactively.

Manish Gupta: Just to add on fundamentally as a business we are looking at it proactively rather than finding out issues later on when it hits. So we are looking at all our key products which are the drivers for the future and we are derisking it upfront rather than supply chain issues to somewhere it is to surprise us.

Sharat Narasapur: Got it. Really helpful. Thank you very much.

Moderator: Thank you. We have the next question which is follow up question from the line of Sajan Didwania from Frontline Capital Services Limited. Please go ahead.

Sajan Didwania: Sir just one question I want to put in, just now you said that on the forex risk question that you are not export India business model like all other pharma company's getting advantage of India cost at one time, why are we not looking for that cost at all that India cost advantage model to better lower for better margins?

Manish Gupta: I have two responses to your question. First is clearly on the API front, it is an India cost strategy so it is an export led model as far as the API is concerned that is where we see the India advantage both in terms of quality, compliance, EHS and also the way we conduct business in India but on the formulations front and I am talking animal health and not pharma in general because while it works out in the pharma space the global formulations strategy from India does not work in the animal health space given that its multiple SKUs multiple strengths and larger volumes so what you save in kind of manufacturing cost is compensated or taken away by logistic cost because everything in animal health is much larger in terms of size vis-à-vis the human side of business. So therefore you need to be closer to the market as far as formulation strategy is concerned and that is why our business model is done accordingly.

Sajan Didwania: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Manish Gupta, CEO for closing comments. Thank you and over to you Sir!

Manish Gupta: Thank you very much. Thank you ladies and gentlemen for joining us. I believe we have delivered a fairly robust performance in the quarter one and are very confident to maintain the momentum going forward. More importantly, I think we have created a very robust platform for value creation for the future with our US filings and EU filings that will start showing up in next couple of months, will potentially create disproportionate value in the coming years we are fairly confident of our target of being in the global top ten by FY2022 and the entire team is focused towards achieving that. Thank you very much, thanks for your time so early in the morning.

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