“Sequent Scientific Limited Q3 FY2019 Earnings Conference Call”

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MANAGEMENT: **MR. MANISH GUPTA - MANAGING DIRECTOR - SEQUENT SCIENTIFIC LIMITED**
MR. TUSHAR MISTRY – CHIEF FINANCIAL OFFICER – SEQUENT SCIENTIFIC LIMITED
MR. SHARAT NARASAPUR - JOINT MANAGING DIRECTOR - SEQUENT SCIENTIFIC LIMITED
MR. ABHISHEK SINGHAL

Moderator: Ladies and gentlemen, good day and welcome to the Sequent Scientific Limited Q3 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, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal. Thank you and over to you Sir!

Abhishek Singhal: Very good afternoon and thank you for joining us today for Sequent Scientific's Earnings Conference Call for the third quarter ended of financial year 2019. Today we have with us Manish, Sequent's Managing Director, Sharat, Joint Managing Director, and Tushar, CFO to share the highlights of the business and financials for the quarter. I hope you have gone through our "Result Release" and the "Quarterly Investor Presentation," which have been uploaded on our website as well as stock exchange website. The transcript for this call will be available in a week's time on the company's website. Please note that today's discussion 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 an opening remark.

Manish Gupta: Thank you Abhishek. Very good afternoon to all of you. Thank you for joining us. It is a busy time I do understand with the added complexity of the budget. As Abhishek mentioned, joining me on this call are Sharat Narasapur, who is our Joint Managing Director and also heading our entire technical operations including R&D and also our CFO, Tushar Mistry.

I will quickly give you a brief overview on the developments during the quarter, which will be followed by the financial highlights both for the quarter as also nine month and thereafter we shall take the Q&A. I assume most of you are aware of the Sequent story and hence I will jump into the performance and some of the highlights during the quarter and also some of the headwinds that the business has weathered.

This is our eleventh consecutive quarter of consistent growth with total revenues jumping to about Rs. 270 Crores representing a 20% growth over the same period last quarter. The YTD revenues stood at Rs. 757 Crores, which makes us well on track to be a 1,000 Crores company by the end of this year. We reported an EBITDA of Rs 36 Crores reflecting a 57% growth on a year-on-year basis with a 310 basis margin expansion.

The YTD EBITDA stood at Rs 92 Crores which is more than the entire EBITDA of the last year. So we had Rs 87 Crores EBITDA in entire FY2018, which we have already crossed in the first nine months. This also is a fourth consecutive quarter of profitable operations with net profit of Rs 13 Crores during the quarter and also about Rs 31.5 Crores for the nine month period.

Our profitability for the current quarter should be seen in the context of the challenges that we had in Turkey, which is historically our most profitable business. As we have been mentioning, there has been a slowdown in Turkey over last two quarters post the regulatory change around the usage of antibiotics and this got compounded by the sharp currency depreciation that occurred about two quarters back. We already see the situation stabilizing and we expect normalcy in Q4. A stable era combined with growth returning to normalcy in Turkey would further aid our performance going forward.

European performance during this quarter was slightly below our own expectations and this is a lot to do with the supply chain challenges in the region. We all know about Brexit and its implications in the pharma industry, we do buy a lot from UK in terms of our regional business strategy and we also sell in UK and all of it has seen some Brexit overhang as there is no clarity on the way forward.

Turkey and Europe headwinds notwithstanding, our formulations business grew almost 17% on a YOY basis, which has been driven by over 30 new launches and has also improved market share across key geographies. Both our emerging markets and LATAM markets have shown a strong growth of 34% and 27% respectively. Strategically this has been a very important quarter as we filed our first in-house developed injectable in EU and also completed our first product validation of another injectable at Bremer facility. This incidentally is the largest injectable product in the world in the animal health space.

Moving to APIs, this continues to be a bright spot with a growth of over 50% in this year and 30% on YTD basis. Our focus on regulated markets and high value products is delivering the required outcomes. Further our deepening relationships with the global top ten is paying off, while we make an entry in the highly valuable Japanese market with two successful registrations a short while back. Our US business continues to grow steadily with the commercialization of second API in that market and we are confident of maintaining this growth momentum in the foreseeable future.

Overall, Sequent that you see today is a formulation led, truly integrated first fully global animal health company from India with an annualized run rate of 1,000 Crores plus or $150 million. We are proud to have built India's first and only USFDA approved veterinary API facility and have 16 API filings making us the largest filer in the US amongst all generic animal health companies globally. In addition, we have 10 CEP approvals.

At the beginning of the current year we had committed ourselves to a high teen revenue growth and an EBITDA margin improvement of 200 basis points. In the first nine months we have grown almost 23% in terms of revenue and the margin improvement of 310 basis points and we are confident of maintaining similar momentum in Q4 as well.

Equally importantly our return ratios have also exhibited a steady improvement with our ROCE now at 12.7% and ROE improving to close to 12%. The cash conversion from EBITDA for our business is high at almost 50% and our Net Debt/EBITDA has more than half to 1.7x from about 3.8x in FY17.

The goal in Sequent for us is to be among the global top ten by FY2022 and strategically we are on track for the same. With these words I now open the floor for question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from Deepak Jain from Progressive Equities. Please go ahead.

Deepak Jain: Congratulations on good set of numbers. I am new to your calls. So just one basic question to begin with - is your business model supplying APIs and injectables to the global pharma companies, so it is more like a CRAMS model or do you market under your own brand in global geographies if not all?

Manish Gupta: No I think (a) we are not necessarily limited to injectables as far as our APIs are concerned. API is a strategic business model by itself wherein we develop our own APIs, these are of course generic APIs, in terms of we are not developing new molecules, and we market it under our own IP to the big pharmas of the world.

Deepak Jain: So you have owned the IP and they do the marketing on your behalf, so you do not invest in front end setup of those marketing setup.

Manish Gupta: That is correct.

Deepak Jain: And on the API you said it is a sort of a strategic business unit kind of itself. So what sort of China factor do you see in your API momentum because it is growing very steadily and strongly in recent quarters, but is that because of China or China is not in the picture?

Manish Gupta: I think you will have to take a step back in terms of the way we have developed our API business. One thing you have to be aware is there is really no veterinary focused API company in the world so all companies are human pharma oriented and they may have a couple of veterinary products in their portfolio. We are probably the sole exception from a regulated market strategy perspective, so there is no clearly a direct competition that we have from China. Second is we invested in this business almost four years back when we established our Vizag facility, which got FDA approved a little over two years back, so the outcomes that we are seeing today in our API business is very well thought through when we began this journey four years back. Maybe a bit of momentum has been added as people derisk from China, so there is overall a growing awareness of derisking from China in the pharmaceutical sector, to that extent it might have added a little wings to our growth, but the strategy was in spite of what is happening in China that has kind of unfolded in the last few quarters.

Deepak Jain: So the other pharma companies like Zoetis, which was part of Pfizer now it is a standalone listed entity do they make their own API or do you supply APIs to them, so Zoetis I think they have been world number one innovator in animal health right?

Manish Gupta: Yes, that is correct. So historically the supply chain of Zoetis was merged with that of Pfizer and therefore Zoetis used to buy APIs from Pfizer units of API. Today they obviously being a separate company are working to create their own supply chain setup, which includes sourcing some of their products from Sequent.

Deepak Jain: So that is good to know and just couple of small questions around R&D investments. You have a very clear thrust on R&D thing, so what is your R&D investment forecast for current fiscal as well as FY2020?

Manish Gupta: So again from animal health perspective you do not need to spend mega bucks on R&D because there are very few new molecules that are being developed in this space. Our R&D spend because they are scattered, they are partly done in India and partly done in Spain, we do not give specific number, but overall we are targeting close to 2% of our revenues as R&D spend.

Deepak Jain: That is helpful. Thank you so much I will fall back in the queue. Thank you.

Moderator: Thank you. The next question is from Vishal Manchanda from Nirmal Bang. Please go ahead.

Vishal Manchanda: Just wanted to understand your API business, can you split that between US and ex-US?

Manish Gupta: US and?

Vishal Manchanda: Basically what percentage of your API business in US?

Manish Gupta: So this is a slightly difficult question for us, the reason being that when we supply to a customer, he is using our API for his US requirement as also his non-US requirement, so therefore for us to be able to split it is not possible. Having said that a very insignificant part of our business right now is catering to US markets because only two products have been commercialized for US business as more validations occur by the customers this percentage will grow. The better way of looking at our business would be how much of our sales goes to the top ten global players because they are the ones who have focused on quality and compliance and that percentage is certainly growing for us and most of our growth is actually coming from these customers.

Vishal Manchanda: What is that percentage that goes to the top ten players?

Manish Gupta: About a third of our revenues come from top ten players and that number is accounting for more than 50% of the growth.

Vishal Manchanda: And would you be able to give the EBITDA margins for the API business?

Manish Gupta: No, we will not be in a position to share that level of information; it is highly strategic for us.

Vishal Manchanda: I did not get your comments on Europe and Turkey very clearly, so what is it that has impacted your business there?

Manish Gupta: Yes, so Turkey this quarter has been poor. We had two hits in Turkey one is the currency, which happened about two quarters back and that continues to be about a 25% depreciation vis-à-vis the Indian rupee, which is our reporting currency, but more importantly about two quarters back Turkey had aligned their regulations with EU in terms of antibiotic usage and they had come out with two new initiatives E-Prescription (ER) and Veterinary Pharmaceutical Product Tracking (ITS), but that clearly had an impact on the growth rates of the market for a short period of time. This quarter again we stayed subdued because of that. Having said that as I mentioned in my speech earlier. we are back on track and we expect normalcy in Q4 as far as the growth rates are concerned, the currency impact will stay.

Vishal Manchanda: And how about Europe?

Manish Gupta: Europe you are aware of the Brexit challenges, which is more in the pharma industry because of this unique concept of QP release, so there has been some challenges as some of our sourcing of what we sell in Europe came from UK and also some of our sales from **European entities** was done in UK, so there was a double whammy, there has been some confusion in terms of how they should be handled as company gears up for Brexit. So there has been supply chain challenges leading to loss of sales, there is nothing wrong in the market, it is more of loss of sales because of the supply chain issue.

Vishal Manchanda: Is this kind of temporary or any come back to you like it is a quarter more than compensate or maybe it is a quarter after that in more than compensate for the loss of sales?

Manish Gupta: As of now we do foresee total normalcy in Q1 next year, Q4 will still stay shaky because all of us are reading what we read about Brexit on a daily basis.

Vishal Manchanda: And on the injectable side, you said you have already filed one product in Europe and there is another product for which there has been validation?

Manish Gupta: That is correct. The first product that we filed was taken at a third-party location while the new product that we have just validated is actually our first validation in-house because till then we did not have the Bremer facility.

Vishal Manchanda: So this should be filed may be in the next few quarters?

Manish Gupta: Yes, typically you can file with six-month stability data.

Vishal Manchanda: When you do the validation does that mean the stability data will take another six months after that?

Manish Gupta: That is correct, that is certainly the pharma regulation, so there is nothing we can do to short circuit that.

Vishal Manchanda: Got it. Thank you. That is all from my side.

Moderator: Thank you. The next question is from Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: I had a few questions. First on the API your presentation mentions that the US business is now driving growth with the second product commercialized. If you could just dwell a little bit more about this aspect of the business in API that will be helpful?

Manish Gupta: See when we build this Vizag faculty it clearly was built with US in mind. So our first US inspection happened in 2016, end of 2016 followed by approval in 2017, but we also had a follow on inspection in 2018 purely because of the shear number of filings we had made, close to 16 filings we had made, there were lot of formulation filings that were happening based out of those APIs, so more and more companies who are selling in US are validating their formulations using our APIs and which is what will drive our incremental growth in our API business going forward. As we speak our API business is very small or insignificant with the first commercialization that occurred last quarter followed by second commercialization this quarter, so at a very broad level our current direct sales in US would be less than 5% of our API business,but going forward that will become a meaningful number. As we go along as more and more products get commercialized in US.

Sachin Kasera: Sir currently what is the mix of API between regulated and non-regulated markets?

Manish Gupta: This is something, which I was explaining to, in response to the previous question that a third of our revenues come from global top ten who are all regulated customers and the incremental growth to these top ten companies is more than 50%. As far as our revenues from regulated markets in APIs is concerned, I think over 80% of our business would be in pure regulated markets.

Sachin Kasera: Secondly sir if you see for the current quarter your presentation mentions that in a constant currency terms the revenues have grown by almost 50% will you be able to give us some sense as to it was mainly driven by better realizations by selling into better markets and higher proportion of high value added products or there is also significant contribution because of higher pricings or high volumes. If you could just dwell a little bit on these two, three aspects how they are moved and secondly with asset turn being already at 1.75x for API business, is there still significant scope to improve the asset turn before we need to put large investments for capacity expansion?

Manish Gupta: A large part of our growth in API business is coming from better pricing almost I would say 60% of our incremental growth is from better price products and balance would be volume increase. I had also mentioned earlier that, not in this call, but in previous calls, that we do not chase volumes in our API business and as we get into better price business we let go the lower price business, so on an overall basis for the next two years we do not foresee any significant capex except in debottlenecking that maybe required in our API business.

Sachin Kasera: The asset turn, which is today at 1.75x as per the presentation, what is the peak we can achieve assuming we keep getting more business from the regulated markets and the mix, which was more high value added. Over next two, three years can we get 2.5 - 3 times on asset terms on the API business?

Manish Gupta: Yes, I will be actually disappointed if we do not hit those levels.

Sachin Kasera: And Sir this type of momentum that we have seen in the API business, is this like certain one off opportunities in the quarter because this quarter is like 50% is a very big number or is that the momentum in API looks quite sustainable going forward?

Manish Gupta: I would rather not get overexcited by the quarter number, but look at the nine month number, which is still 30%. As I explained earlier for us it is not a replacement for China strategy, this was a well thought-out investment made at Vizag four years back much before China became a factor. The only regulated market focused veterinary API Company there are many in the human side, but really none on the veterinary side. Nobody understands our customers better than what we do. I am clearly confident of maintaining at least 30% growth rate in the foreseeable future as far as our API business is concerned.

Sachin Kasera: Sure sir. Sir my next question is regarding the EBITDA margins. While we have seen almost 12 and 30 basis point improvement in the gross margins on the nine month basis. My sense was that operating expense we should have got a much better leverage because I thought a lot of our expenses are fixed in nature, while that has also improved a little bit, but if you could tell us because we thought with a 20% plus sort of a growth there should be much higher operating leverage coming from other expenses?

Manish Gupta: No that is absolutely fair expectation, but clearly Turkey, which has been our highest performing or most profitable business underperformed in this quarter compared to our own expectations and that is kind of pull down some of the benefits, which should have accrued as far as overall P&L is concerned.

Sachin Kasera: So fair to assume that Q4 as you guided the Turkey should be back on track, so we start to see this benefits come back?

Manish Gupta: Again certainly it does appear so at this point of time.

Sachin Kasera: Sir just one last question, you mentioned that we have filed the first injectable, what is the type of potential opportunity we can look from this filing?

Manish Gupta: Unfortunately I wish I could give you this number; fact is there is no IMS or IMS equivalent in our industry and whatever we have is highly proprietary because it is based on own market information creation on a bottoms-up basis with the marketing presence in those countries. So all I can say is it will be a meaningful number for our kind of business, but it will probably be pale in comparison to some of the numbers you look at in the human pharma side of business.

Sachin Kasera: That I understand Sir. My question was more from the perspective of how big the opportunity is. Obviously we cannot comment on how much market share we can get and what pricing it will be, but if you could just get a sense how big the market for that product itself it is like a 30 Crores, 40 Crores product or it is like a 100 Crores, 200 Crores sort of a product?

Manish Gupta: So there are very few $50 million plus products in the animal health space. It certainly will be somewhere in-between unfortunately I cannot give you a very precise answer. It will be more than 30 Crores, 40 Crores product as far as market is concerned and would be certainly less than 100 Crores product as far as overall market is concerned.

Sachin Kasera: And right now there is only one player, if we get the approval we will most likely be the second player in this product?

Manish Gupta: No, this, the first product, which I refer to which we have already filed is we will not be the first generic. It is already genericised there are two more players already in that market, but the second product, which we just validated at Bremer we could be in the first wave of generics, we will be on patent expiry because that is a patented product.

Sachin Kasera: Sure. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Sajan Didwania from Frontline Capital. Please go ahead. We will move to the next question. Next we have a followup question from Deepak Jain from Progressive Equities. Please go ahead.

Deepak Jain: My question was in one of your recent interviews Manish to a business news channel there was some sort of a potential acquisition target in Australia and or the US because you do not have presence there in those geographies, yet you said in that interview. My question is will you be taking any additional debt for those targets each and when they materialized?

Manish Gupta: First I will answer the first part, clearly we do have strategic acquisition interest in US and Australia, which are very important veterinary markets and as we develop our portfolio we will be looking to commercialize using our own frontend to capture a greater part of the value, so that is a simple logic of these acquisitions. Having said that I do not foresee the need for any fresh fund raise because we do have investments of close to 170 Crores in our balance sheet, which is there in our investor pack. These are investments, which will serve us as a growth capital as and when we acquire something either in US and/or Australia. The good news is all our acquisition targets typically are not very, very large.

Deepak Jain: Right, but when you say it capturing the additional part of the value chain, you can partner with the leading companies in those geographies like you do currently right, so you own the IP intellectual property and then you partner with the players in those geographies and you could do the same in US and Australia, so what is stopping you from continuing with that model?

Manish Gupta: Yes, see that is as far as our APIs are concerned, but a significant part of our business is also veterinary formulations and we are developing close to 35 products as we speak, which will be based on our own IP. These are the products we would like to commercialize and take the frontend part of the sales and distribution margin as well because otherwise if you sell it as an API or even as a formulation with through another distributor you tend to give away close to 50% of the margins in that market.

Deepak Jain: Sure now understood, yes, that sounds like an interesting opportunity. So thank you for clarifying that and what about the debt part, will you be funding it, I know you said that it would not be a significant ticket size as such, so can we expect the long-term and the working capital debt to reduce gradually I think your debt to equity currently is about 0.4?

Manish Gupta: Yes so our operations are highly cash positive, one thing good in veterinary business is the EBITDA to cash conversion is very good, we have been maintaining or running a very tight ship if you see the balance sheet numbers our working capital and debts are all in control in spite of growth in business. So if there is a status quo we do not foresee any increase in debt in fact it will go down. If there is an acquisition clearly there is investment angle to it, which we can make it liquid to acquire. There may be some balancing debt required but that is about it. There would not be any significant change in our debt profile.

Deepak Jain: And just one small question and I will fall back in the queue afterwards. There is some continued noise as such about the reduction in the use of antibiotics on animals because it is not good for their health. I know they do not impact the food chain because you were explained this in one of your interviews that the animals do not get curled if the drug is still in their body, so from a human consumption point of view that meat is risk free, but still there is some noise on this resistance against the bacteria that these animals develop, so reduction in antibiotics, if that momentum picks up how much impact do you see on your business and industry generally speaking?

Manish Gupta: What you are saying is absolutely correct and it is not noise it is real. This movement started a couple of years back as always Europe is in the forefront of it and US has just caught on, so there has been an overall decline in use of antibiotics across the world. Now coming to its impact on us, so I will split it into two parts. Let us take the API part of our business, we are not present in antibiotics, we are largely a chemical company or chemistry based product company, most of our products are in the region or range of anthelmintics or deworming agents, so we are actually not impacted by any of these antibiotic reduction across the world. On the formulation side of business given that we are more of a new entrant in this space, actually we are able to design our product portfolio appropriately for the future because antibiotics are gradually getting replaced by better nutrition products to achieve the same outcome. One thing I wanted to clarify is what is being curtailed is the abuse of antibiotics as growth promoters and not the genuine use of antibiotics, which was to fight the infection part. So that abuse part is going down significantly, and it is providing opportunities to companies like us who are not carrying too much of legacy products to create our own future.

Deepak Jain: That is good to know. Thank you so much I will fall back in the queue given an opportunity. Thank you.

Moderator: Thank you. The next question is from Vipul Shah from RippleWave Equity. Please go ahead.

Vipul Shah: Can you let me know what will be the debt on the Turkish books whether last quarter it was around $3.5 million whether that stage or is there any reduction there?

Tushar Mistry: It remains the same there is no change in that debt.

Manish Gupta: But I think the number is not correct.

Tushar Mistry: Yes, the number is not $3.5 million it is $4.5million that we have to see.

Vipul Shah: So this will only have a translation impact in OCI?

Tushar Mistry: Yes so when it comes to consolidated financials impact is only in the OCI not on the consolidated P&L.

Vipul Shah: And Manish are you giving some sort of obviously you mentioned your aspirations for the API growth for the next couple of years, but on the formulation side are you willing to call out what you see given the fact that you guys have also filed two products in Japan, one from Bremer and on that count you are progressing smoothly, are you willing to call out any formulation revenue guidance?

Manish Gupta: Yes so I think we have been guiding that our formulation business will be growing at about 17% to 18% over the next two years followed by faster growth thereafter as we benefit from our own pipeline. While for the first two years the API will grow a little faster than that close to 25% year-on-year and thereafter it will probably by led by the formulations.

Vipul Shah: Thanks a lot.

Moderator: Thank you. Next we have a followup question from Deepak Jain from Progressive Equities. Please go ahead.

Deepak Jain: The question is you have previously stated again in one of the TV interviews that your aim to achieve round about 2,000 Crores revenue target in the next four years or so, so is that kind of FY2023 or can you do that sooner, that is one part of my question and whenever you get to that sort of target of Rs 2,000 Crores revenue your current ROCE, which is about 12.7% do you expect that to get closer to 30% kind of ROCE?

Manish Gupta: Obviously when we have been guiding to the Rs 2,000 odd Crores number we had considered really no inorganic strategy in that because you cannot put a timeline or a number around inorganic strategy.

So with some inorganic certainly we hope to achieve the target earlier, if not FY2023 is our target for that number. Coming to the ROCE related question you have seen that we have had a significant turnaround as far as our return ratios are concerned both ROCE and ROE. This was significantly because of our investments in API, it took us four years to start making money they are really speaking and that is what has changed the ROCE or ROE in the last 12 months. Certainly, it will grow whether it grows to 20% or stays at 18% or so. I am not so sure at this point of time, but it will certainly be way above our cost of capital.

Deepak Jain: Can you just remind me about your weighted cost of capital again, what is the current cost and where do you expect it to be by FY2023?

Manish Gupta: Our current debt cost is what we can give, but it is around 10% right, Tushar if you can.

Tushar Mistry: Yes. The current cost of debt is about 10% for the borrowings that we have on the balance sheet and on the return on equity side it continues to improve quarter-on-quarter is what we are saying.

Deepak Jain: So 18% is a more reasonable number anything more than that will be a bonus by FY2023 on the ROCE side?

Tushar Mistry: That is correct.

Deepak Jain: And one question on your balance sheet side, you have some investment in Strides and Solara and you value them on a fair value basis for December 2018 versus March 2018 I think the fair value is about Rs 220 Crores as on March and then they have reduced a bit to Rs170 Crores as on December 2018, but these are your investments in your group companies, right, so you would not be able to liquidate them even if you want to?

Manish Gupta: That is not necessarily true, see first if you trace back this investment was made in Shasun at one point of time before it became part of Strides. So it was never made as a group company investment it was made as more a strategic investment because at one point of time we had bought out the Vizag facility from Shasun and it was made in that context. So we clearly do not have this restriction of not being able to monetize this asset as and when required for growth that is the clear mandate from the board, but yes we are not going to sell it in a hurry.

Deepak Jain: Of course because I think yesterday there was some positive outlook coming from Solara and funds are taking exposure at above market price. Yes, I think it makes a sense to hold on to those for at least a couple of years. Now I just wanted to clarify because it is sitting on the balance sheet and it is kind of give projection that we are not heavily indebted as we might seem to be because of those investments. So I just wanted to clarify what is the stand of the management is. So yes, thank you for your response. Thank you.

Moderator: Thank you very much. Next we have a followup question from Mr. Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: Sir in terms of the gross margins this year we have seen improvement, do we see further improvement in FY2020 from the gross margins or we have more or less achieved the peak?

Manish Gupta: There certainly should be some improvements, which will be coming as we commercialize more and more in regulated markets both US and other markets, so clearly the pricing there is better therefore the gross margins will improve.

Sachin Kasera: And Sir your note mentions that because of certain supply challenges the growth in Europe market was impacted, so is it that there were certain demand that could not be fulfilled because of the issues around Brexit and was that a large number that impacted the overall?

Manish Gupta: Yes, certainly we did lose certain business because of that, the demand was there we could not supply because of lack of supplies. In overall context of the global organization it may not be that large, but certainly it was meaningful for the European business.

Sachin Kasera: Any hedge could give us Sir just a ballpark number like say 4, 5 Crores was the impact because of that or some sense?

Manish Gupta: I will do something and come back to you.

Sachin Kasera: Surely Sir. Next question on the tax rate, this year obviously the tax rate is quite low how do we see our tax rate for FY2020 and maybe possibly from FY2021 also that would be helpful?

Tushar Mistry: We have tried to explain our normalized tax rate and the normalized minority in our presentation slide #14. The normalized tax rate we see at around 14% and the normalized minority we see at around 20% as of now.

Sachin Kasera: So tax rate should remain at 15% at least for next couple of years?

Tushar Mistry: Yes.

Sachin Kasera: And this slide, which mentions last quarter there was a gain of 7 Crores I believe because of the Turkey translation that you explained on slide #16 and #14 I believe and this quarter there is a impact of 3 Crores so where exactly is it captured in the P&L is it part of the other expenditure or straightaway impacted in revenue from operations where exactly is this impact coming in?

Tushar Mistry: This is only in the tax line item and the minority interest line item.

Sachin Kasera: So it is basically below PBT the impact?

Tushar Mistry: Below PBT, yes, that is right.

Sachin Kasera: And Sir on the US front when do we start seeing some revenues on the formulation side as far as US business is concerned?

Manish Gupta: I think the first revenues will start from FY2021 because we make our first filing in FY2020 and the first approval in FY it typically takes between 12 to 15 months for the approval.

Sachin Kasera: And the plant is of USFDA approval or that will still get into a USFDA approval before that?

Manish Gupta: So the first filing that we have done is from USFDA approve plant, but the first filing, which we made from Bremer would kind of trigger inspection of that plant.

Sachin Kasera: And as of now we have filed eight products in the US right Sir?

Manish Gupta: No, as of now we have filed nothing in US from formulation side. We have only filed 16 APIs in the US. First formulation we are guiding for filing in second quarter of FY2020, which is about six months from now.

Sachin Kasera: So when you see the presentation on the formulation, that US only you win 8 products in the pipeline Sir that is what you mean to say when the presentation mentions about US only eight products on the formulation?

Manish Gupta: That is the breakup of the 35 products that we are developing of which 25 are global products US, EU and other markets. While eight products are only US specific products they do not have EU approval. While two products are EU only products and they do not have US approval, so effectively 25 plus 8 would be 33 filings in US and 25 plus 2, 27 filings in EU.

Sachin Kasera: And this 35 pipeline Sir what is like the timeframe next two to three years we should be filing this?

Manish Gupta: Yes, over next 36 months at the maximum.

Sachin Kasera: And Sir what is our R&D cost and how do we see that if we are looking at increasing the pipeline for US and Europe, do we see that going up the R&D cost?

Manish Gupta: As I took this question in the earlier part of the call, we foresee about 2% of our gross revenues as R&D spends.

Sachin Kasera: And where does that stand today Sir more or less similar level today or a little lower?

Manish Gupta: It will be slightly lower closer to 1.5% that will go up a little because our developments have already started it is just the filing fees, which will get added.

Sachin Kasera: Thank you very much Sir and all the best.

Moderator: Thank you. The next question is from Gautam Gupta from Nine Rivers Capital. Please go ahead.

Gautam Gupta: I just had one question as we invest in and as we grow our formulations business and we take it global. Does this in anyway bring us in conflict with our customers on the API side, I know scale wise our formulation business is very, very small, but maybe specific markets of specific product category there could be conflict because you become a competitor to your API customers?

Manish Gupta: Not really speaking, see if you look at the pharmaceutical world, we all have been cooperating and competing at the same time and this has been there for many, many years, so even human pharma company does the APIs they supply to others and also sell their own formulations. The conflict is even lesser in the veterinary side because we are dealing or we are not really dealing with patented products, so the conflict can typically arise only on the patented side of the business not on the off-patent side, so I do not foresee any challenge.

Gautam Gupta: Fair enough. Thanks a lot Sir.

Moderator: Thank you. Next we have a followup question from Deepak Jain from Progressive Equities. Please go ahead.

Deepak Jain: One small question regarding the dividend policy if I may, so after a gap of about six years I will see you started distributing dividends again with a small 10% I think last year, is there a definitive sort of payout ratio that you have in mind is it 20%, 25%, or any colour you could just add on this dividend distribution policy?

Tushar Mistry: See currently we are in a growth face and while dividend policy is a board matter for the board to decide, during this growth phase we will try to maintain the momentum for our dividends going forward as we continue to grow our business.

Deepak Jain: Right because the question I was asking reason was that a progressive dividend is generally seen as a positive from a market perspective. So something that grows on 10% to 12% to 15% to 18% is generally seen as a positive indicator as a sign of confidence from the management, so I was just asking from that perspective.

Manish Gupta: No I think to further respond to that we just became profitable, we so far do not have a clearly articulated policy from the board and my guess is it should get formulated and articulated over next couple of quarters.

Deepak Jain: We will look forward to that. Thank you for all your responses. Thank you.

Moderator: Thank you. Participants who wish to ask questions please press "*" and "1" on your touchtone telephone.

Abhishek Singhal: I think that was the last question Rio we can possibly have closing comments.

Moderator: Sure. As there are no further questions, I would like to hand the conference back to the management team for closing comments.

Manish Gupta: Thank you all. Thanks for taking time to join us. We clearly have been on a consistent growth track for last 11 quarters in terms of our performance and the fourth quarter of consistent profitability. We stay confident of the future and are well on track to be among the global top ten companies by FY2023. With that thank you very much and wishing you a good day.

Moderator: Thank you very much. On behalf of Sequent Scientific Limited that concludes the conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.