“Sequent Scientific Limited

Q1 FY '25 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the SeQuent Scientific Limited Q1 FY '25 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 the star, then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek. Thank you, and over to you, sir.

Abhishek Singhal: A very good morning, and thank you for joining us today for SeQuent Scientific's earnings conference call for the first quarter and full year ended financial year 2025. Today, we will have with us Raja, SeQuent's Managing Director; and Saurav, CFO, to share the highlights of the business and financials for the quarter.

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

I now hand over the call to Raja to make the opening comments.

Rajaram Narayanan: Thank you, Abhishek. Good morning, everyone. I'm Rajaram Narayanan, Managing Director of the company. A very warm welcome to everybody on the call for the quarter 1 FY '24/'25 results. Joining me on this call is Mr. Saurav Bhala our Chief Financial Officer.

This is the first quarter of a new financial year, and I am delighted to share that it has started well for the company. We continue to strengthen our performance and are on course to delivering our plans as per the guidance that we have shared with you over the last few calls. Our transformation program, which was rolled out late last year has continued to deliver. And all our businesses are becoming more competitive as a results of initiatives we have taken to deliver a better product mix, introduce new products, embed operational efficiencies and increase our investment on R&D and talent.

Coming to the performance of the quarter. In quarter 1 FY '25, our consolidated revenues came in at INR3,902 million during the quarter, which translates to a strong revenue growth of 17.1% when compared to the same quarter last year, that is Q1 FY '24. Sequentially as well, this represents a revenue growth of 8% compared to the previous quarter. This quarter -- this growth continues to be quality growth, which is seen in the margin and the EBITDA numbers.

During the last quarter, the company recorded an EBITDA pre-ESOP of INR483 million, which is the highest recorded quarterly EBITDA pre-ESOP in the last 3 years. This translates to an EBITDA pre-ESOP margins of 12.4%, which continues to show an increasing trend in line with our targets and guidance.

While Saurav will go into more details, I'll share some key highlights. The formulation business which accounts for 3/4 of our revenues and is spread over multiple geographies show a strong growth of 21.1% versus quarter 1 last year. Let me give you an overview of some of the reasons. So there was strong growth in Europe, particularly in Benelux countries as there was increased demand due to outbreak of virus diseases.

Our teams are very agile. And with the help of our partners, we have managed to support the local government in making vaccines available. The continuing work on adoption of new treatments such as phytosolutions have helped volume growth in home and export markets for our European companies.

Our strong presence at the front end in many of these markets helps us to build strong relationships with innovators for distributing select products. This is a stream of business development which we intend to pursue further. On the whole, the margin improvement initiatives in Europe around portfolio rationalization, pricing and new products that provide a strong momentum to the results.

Coming to emerging market. In Turkey, the government actions on inflation and currency have resulted in an improving climate for investments. This, in turn, has helped the environment in Turkey to move towards more predictability. Our business has taken judicious price increases while accelerating introduction of new products and extensions. And as we have indicated earlier, Turkey is emerging as a good base for exports. We have recently received the EU GMP certification for our manufacturing facility in Turkey.

We continue to accelerate exports to other emerging markets from Turkey, which, in turn, helps in heading on our foreign exchange requirements in addition to, of course, driving operational efficiencies. Turkey is one of the large markets for animal health, and we have a very strong presence in the market in Turkey. And the priority in the coming quarters, it should drive volume growth while maintaining a strong discipline in operations.

Our business in other emerging markets has been stable on the whole, BSM positive, and in some places, some challenges. Our formulations business in India is poised for growth. We have expanded our team as we have initiated earlier, and now the team is on ground, and this should begin to deliver results towards the second half of the year. India is a key market for development, and we are pursuing this plan aggressively in terms of products on NAM presence as well as the R&D.

Now coming to the other large business, which is API, which accounts for 1/4 of our total revenues. The API revenues for the quarter grew at 14.4% in comparison to the same quarter last year. This is a strong performance coming on the back of a strong prior quarter. Our margin improvement plan has been rolled out well under the name project Pragati, to which I have alluded a few times. This is a comprehensive program across all work areas in API to deliver operational excellence.

Sales from regulated markets remain strong. We are also seeing some positive signs in the demand for anthelmintic drugs, which is an area where we have substantial experience and expertise Importantly, we are preparing ourselves for the future. The Vizag API facility has received a positive reviews at the EIR, which is Establishment Inspection Report.

We've also received preliminary certification from new markets like Japan. And we are in the process of finalizing prequalification registrations for supply for WHO products. All of these further strengthen our preparedness for new opportunities. So overall, it has been a good start to the financial year. The animal health market remains attractive, driven by the increasing demand for protein, higher awareness of diseases and increasing pet ownership.

Of course, there are many challenges in the environment, geopolitical events, transformation and technology and the of course socioeconomic undercurrents. Our company has learned to be agile and responsive to the things that we can control. And I believe that this capability will serve us better and go for long.

I wish to, first of all, thank all our employees for their resilience and commitment to grow and deliver. Our employees, our business partners and investors have had a big role to play in this improving performance. We are now poised for accelerated growth while improving margins. The increasing interest in animal health across the world reaffirms our belief that the company is operating in a growing market and is positioned for a larger play in the sector.

We will also continue to evaluate opportunities for strategic partnerships or inorganic actions, both in formulations and in APIs. We remain focused and confident that our actions and plans will deliver consistent, profitable and sustainable growth in the coming years.

I'll now hand over to Saurav, our CFO, who, with his team, has been at the forefront of the efforts that I've spoken about. Over to you, Saurav.

Saurav Bhala: Thank you, Raja. Good morning, everyone. It's my pleasure to be here today and share key insights into the financial performance of our company for Q1 '25. Our total revenue and EBITDA pre-ESOP, for the quarter, is INR3,902 million and INR483 million, respectively. Our formulation business contributed INR3,002 million and API business contributed INR924 million.

Our European operations have shown robust growth, largely pulled by new business opportunities and results of our portfolio restructuring over the past few quarters. Europe achieved revenue of INR1,571 million, reflecting a 34% year-on-year increase or growth. Emerging markets reported revenue of INR1,187 million, marking a 36% year-on-year growth in constant currency terms. This increase were driven by the decisive price actions estimated in Turkey. India formulation business clocked a revenue of INR244 million.

Moving on to margins. I'm pleased to share that our gross margins has improved by 3.60 percentage, rising from 41.5% in Q1 financial year '24 to 45.1% in Q1 financial year '25. This increase is attributed to several operational efficiency optimization areas as shown over last few quarters, such as optimizing the sales product mix, effectively applying price increases across geographies and improve operational efficiencies in our key business segments.

Happy to inform you that our target initiatives to optimize our cost structure and drive operating leverage has successfully led to a notable reduction in our operating expenses despite absorbing inflationary pressures across regions globally. We have managed to achieve a 1.1% reduction in our opex on a Y-o-Y basis. That is INR1,291 million in Q1 financial year '24, to INR1,276 million in Q1 financial year '25, reflecting our commitment to driving profitable growth with clear focus on operational excellence.

The above merits have resulted in significant improvement in our EBITDA margins pre-ESOP. On a Y-o-Y basis, the increase is 9.60% from 2.8% in Q1 financial year '24 to 12.4% in Q1 financial year '25. And on a quarter-on-quarter basis, the increase is about 1% from 11.4% in Q4 financial year '24 to 12.4% in Q1 '25.

We also successfully completed our term loan restructuring process, moving away from multi-geography multibank structure. This restructuring has resulted in simplifying our borrowing structure and covenant. It has also helped us in creating the additional lines available to support our business growth needs across geographies in the time to come.

I thank you all for your continued support. And now I'll request for the forum to be open for Q&A.

Abhishek Singhal: Steve, can we take the Q&A, please?

Moderator: Your first question is from the line of Jegadees Sharma, an individual investor.

Jegadees Sharma: Congratulations on an excellent set of numbers. I just have a few questions. First question is, could you just throw some light on the reasons behind the increase in EBITDA margin in this quarter? And what can we expect -- can we expect this to increase for the rest of the year? This is my first question.

Rajaram Narayanan: Can you -- do you have any more questions, Jegadees? We'll take them altogether. Anything else that you have?

Jegadees Sharma: Great, sir. Then my second question is what is the reason behind the high growth in Europe? And in which markets you are growing in Europe? This is my second question. And you were talking about the businesses in Turkey. So you have said the environment is more stable, right? So the performance is going to be sustainable? Or what is our long-term market strategy in Turkey? This is my third question.

Rajaram Narayanan: Okay. Thank you very much. I think this will help answer a lot of, probably, clarification on the things we have spoken. So first of all, on increasing EBITDA margin in the quarter. I think -- if you remember, we have already indicated last year that towards the end of FY '24, we would be moving to double-digit margins. So we had achieved 11-plus percent, even in quarter 4.

So to that extent, a 12.4% margin is an increasing trend, and it is the benefit which is coming through from both some of the actions and of course, some of the growth that we are seeing in the market. So the EBITDA margin improvement is across all the sectors.

In the API business, we have seen, of course, the leverage play in because when you have sales which are higher, you do have that advantage coming in on account of your operational initiatives that you have taken. So the margin improvement initiatives in the API business, coupled with the top line which has come in and the product mix, that's one reason why we are seeing it. As Saurav told you, the gross margins have been steadily moving up, and we have kept costs under control.

On the formulation side, EBITDA margin is largely driven by new markets. One is Turkey, where we have, of course, seen the currency a bit more stable, and therefore, price increases and volume increases are beginning to play out well. The second place where we have seen this growth is, of course, in Europe, where we had already begun to see, for the last couple of quarters, an improving margin trend. So some of that leverage has helped.

And of course, in this quarter, there has been accelerated demand on some animal health products, because there are -- animal health business is typically also driven by periodic outbreaks which happen in diseases, and these tend to vary year-to-year in terms of the intensity. And this quarter, there have been a couple of viral diseases which have been more intense.

And therefore, we've had the opportunity to supply vaccines to some of the European markets, particularly in Belgium and Netherlands, which, of course, has allowed us to take some market share in those markets and gain some top line as well. And that's the other reason why we are seeing improved performance in Europe.

So there are a combination of these things, which has resulted in increased EBITDA margin. But I think the way you've got to look at it is to look at it over a period of a year. And I think what we should stick by is that what we have indicated earlier, which is we will move towards ending the year more in mid-teens. And therefore, there will be some ups and downs, of course, of opportunity. But directionally, we will move towards a mid-teen margin by the end of the year. Yes. I hope that also takes care.

Yes, in terms of sustainability of performance in Turkey, at this point, of time, the government interventions over the last kind of couple of -- more than 2 quarters actually, has been consistent. Inflation is gradually coming down. Interest rates are going up, and there has been increase in the interest in -- for investment in Turkey.

And the policy is also more stable. And therefore, it allows a large company or a company with a big market share presence like us to take more predictable, stable actions in that market. So while things are substantially better than what they were a year ago, we have to still be very agile, and we are taking the right kind of actions on pricing and volume in that market.

Moderator: The next question is from the line of Vilina Jain, an Individual Investor.

Vilina Jain: Firstly, congratulations on a good set of numbers. I have a couple of questions. So I just wanted to understand a bit better, what is happening on the India formulation business, which is meant to be one of the growth focus areas. And you had mentioned earlier about some discontinued product. So have the supply started for the same? Secondly, there is a mention of vaccine business. Are we manufacturing vaccines? And thirdly, have you seen the full impact of all the costs and some of the initiatives will we see more during this year?

Rajaram Narayanan: Thank you, Vilina. So the first question on India formulations, as we have said before, India is an important market which we are doubling down on and -- for our formulations business. So we have a reasonable strength, but I think there's an opportunity, which we find, to scale up here quickly. So the first thing we have done is to scale up our on-presence. So in -- towards the end of last quarter, we had begun an expansion on this field, and we have expanded our team by almost 40%, and we will follow this up with more expansions towards the end of this year.

So the India formulation business today, which is run at an annualized sales of around INR120 crores to INR140 crores, we expect that this should definitely accelerate in another 12 to 18 months. So the people are on ground. We have a very good portfolio, and now it's really about making it available to a larger number of veterinarians and farmers.

The third is, of course, to launch new products, which we have begun. We have the strength of being able to quickly import products which are manufactured by some of our overseas companies as well, which are appropriate for the market. So those select products, we have begun registering in India. So I think this will be a business that is long term, sustainable and has enough opportunities. Because in India, we are still really talking, at this point of time about the production animals and that's largely cattle for dairy.

But the Companion Animal segment is still to grow. It is nowhere near the size which is there in the comparable market. So that's another area which to grow that we now need to sort of build the foundation, and that's what we have started, at this point, of time. The question on the discontinued product. Yes, we are also distributors for one of the largest companies for a select range products.

And one of the large SKUs was not available for most of last year. We have confirmation that this will begin to come back into supply because their production facilities have had an issue, and we think that will come back before the end of the year. So what you're seeing right now is a bit of the base effect of having had it for a quarter and not having had all of it this quarter. But irrespective of that, we are focused on growing the rest of the portfolio. And when that comes in, that'll only add to it towards the end of the year.

Are we -- the question on vaccines, we're not in the manufacturing of vaccines. But because we have a very strong presence in market in the front end in many countries, we are looking at vaccines as being an interesting area to distribute. And there are many companies which have innovative vaccines, but they don't necessarily have the front end to be able to distribute these products.

And so the reference to vaccines, which you see in this quarter is the distribution that we have started for one of our partners who's a strong player in Europe. And we have, therefore, taken that to market in this quarter. And that's what we are seeing on vaccines right now. Sorry, what was your third question?

Whether all the costs have come into play, at this point, of time. I think this is the year where we will annualize a lot of it because most of the activities in terms of cost initiatives are towards second half of next year -- of last year. So we should get annualization benefits. But having said that, we've already commenced version 2.0 of the program because this is a continuous journey.

So we have a next set of initiatives, which will again roll out, and we need to keep doing that every year to get the benefit. Yes. I hope that answers your question.

Vilina Jain: Yes, it does. Thank you.

Moderator: The next question is from the line of Chintan Chheda from Quest Investment Advisors.

Chintan Chheda: Sir, my first question is related to the formulations business. So can you give a split between the volume and price growth during the quarter? Secondly, we were expecting some kind of a 10%, 12% growth in FY '25 on our overall business. So with the strong start to the year, should we expect a better growth for the full year? And next is, we have seen a very high interest cost during this quarter. So is there any one-off? And what is the net debt as of 30th June?

Rajaram Narayanan: So I'll take the first 2 questions and ask Saurav to answer the -- next to the -- take third and fourth on interest and net debt. So firstly, on the volume and price, it's a bit of a combination of different markets where it is on the formulation side. I would say that on the Turkey business, most of the growth would be entirely priced, but on the other hand, in the European business, we have probably about 3% to 4%, which would be on price, and the rest of it would be largely volume.

Yes. So in an aggregate basis, I don't have the number off hand, but I mean, we look at it as market-by-market because the nature of our markets are such where we have strong sort of price increases on account of inflation and in other markets, we don't. So the general direction for that going ahead would be that we would expect a stable scenario of 3 sort of -- if you look at it top line, it should grow back at 10% to 12%. It should be 1/3.

About 1/3 on volume, about 1/3 on pricing and about 1/3 coming from new products and launches. That's a good sort of mix which we would expect for this kind of a business going ahead in the future. But given the inflation in Turkey, at this point of time, it'll start exactly playing out in that way, but that would be over soon.

The second question you have is on, we had given a volume, a top-line growth of 10% to 12% for full year. Yes, we have started well at 21.1%. But I think that I would not want to sort of say that this immediately would translate into a higher than 10% to 12% growth at this point, a bit early. Let's watch for another quarter or so because some of it is also because of the base that we had at quarter 1 last year. But I think directionally, all that I can say is that we are on course to deliver what we have guided, which is a top line of low double digits and maintained EBITDA exit for this year.

Yes. I think Saurav, on interest and net debt, if you have.

Saurav Bhala: So debt level, more or less, remains same as March, slight increase of INR10 crores or INR11 crores. The cost has gone up because I explained in the last call and during this call also, we have undertaken a large term loan restructuring process. By simplifying the structure, wherein earlier, we had multiple banks in multiple geographies lending at various covenants and managing that was a challenge.

Now the current structure is one bank serving all our requirements across the globe. Also we expect next couple of years of requirement. And we have also created the additional lines in case we see the need for future business support. So interest has slightly gone up because of that. And this is a short-term phenomenon. I think the interest rate increase, which you have seen will remain so of that amount will remain for this next few quarters, and then it will start going down.

Rajaram Narayanan: On net debt. Net debt, yes.

Saurav Bhala: Net debt has gone down by about INR12 crores because our cash flow from operations had been pretty strong in this quarter. Because Q4 was strong, this quarter is strong so cash flow remains to be fairly strong.

Rajaram Narayanan: And directionally, I think also...

Saurav Bhala: Yes. Net debt should be lower.

Chintan Chheda: Okay, great sir. Thanks a lot and all the best.

Moderator: The next question is from the line of V.P. Rajesh from Banyan Capital.

V.P. Rajesh: Congratulations on delivering on the project that you had described a few quarters ago. So really happy having to see that net debt. Five questions. Just a quick follow-up on the interest rates. So if you're consolidating, you would expect the interest rate will come down. And then the second related question is, is it a floating debt? Or is it a fixed interest cost debt? So that is the first one.

Second, on the capex side, if you can give an update as to what we are going to be spending this year. And third, on the M&A side, we have been thinking about recent acquisitions and talked about it in the previous calls. So any update on that? And last 2 questions are first, on the business side. Right now we are 75% formulations. So once you actually get to a steady state, what kind of contribution you are looking between formulations and API? And lastly, on the margins for both of those.

Saurav Bhala: Sure. Thanks for the question, Rajesh. I'll take first and then I'll ask Raja to address the next two. On the interest rate, it is not a fixed rate. It is a floating rate. So as soon as the interest rates start going down, you will see a decrease in the rate of interest applicable to our loans. And on the amount also, interest amount, we don't see any substantial increase on or borrowing. So that's why in my earlier statement, I said the interest rates would be more or less similar to what you are thinking in this quarter for short period, for this year, and then it will start going down.

Second, on the capex. We have done most part of our investments in the last few years where we have created the base which will support our business operations growth as required for the next few years. Having said that, there are various opportunities which we are seeing in our global formulation. So the capex for the current year is going to be subdued, but it's supposed to be around INR50 crores to INR60 crores for the current financial year across the board. Raja, your take on M&A?

Rajaram Narayanan: Yes. So I'll take your other 3 questions, Rajesh, thank you. For the first on M&A, I think we have always been on the lookout, but in the last -- in fact, just about 18 months ago, we were pretty close to completing a transaction which was there and then we could not take it further, which we spoke about in our earlier call. But we are very serious about looking at opportunities to grow inorganically, provided, of course, there is a strategic fit, and more importantly, it's a disciplined acquisition in terms of what we can do.

We look both for -- on the formulation side, we would be focusing on opportunities which may be there on companion animals largely. The kind of transactions, which are, right now, possible on the formulation side, would not be full-fledged companies, but it could be assets which are around brands, which could be around licensing, things of that -- sort of that's where we are right now. As you can see, we are investing heavily into BD partnerships because of the kind of market access that we have in many places with our existing portfolio. So it could be bolt-on brands and partnerships. That's one kind of M&A we are looking at.

On the API side, our primary interest would be if there is anything which helps us strengthen or shorten the time-to-market in terms of R&D or give us advantages in terms of scale and intermediates or any other kind of in-house -- in-housing of operations, which makes us more profitable in companion, yes. So we are constantly on the lookout. We feel that after the last 12 months of fixing some of the things which are in-house, we are at a stage where we should be ready to take those on.

On the shape of the business, 75-25 on formulation, API. I really don't think we have -- it's more an outcome of how different times, different businesses grow. We used to be -- I think we've also been 65-35 at some point of time. We have become 75-25 now. But my sense is you should expect that the business -- the formulation business will be anywhere between 70% to 75% and the rest of it would be API, depending on which quarter it is and how -- because there's also seasonality in these businesses, which is there. But what is good is that growth of the business have started to stabilize and grow.

We expect, from the margins on these, we really don't look at the individual segment margins. We don't disclose them, but I think both of them are consistently growing. And there isn't too much of a difference between the 2 versus the average margin of the company right now. So they're both a little bit above and a little bit below the average gross margin of the company.

Moderator: The next question is from the line of Bhavesh Gandhi from Yes Securities.

Bhavesh Gandhi: Yes. So one question on my side is when we are calling out a mid-teens margin journey by end of the current year, what sort of revenue expansion is this implicit in -- when we are falling out this sort of a margin number? So that's one question. And other one which I had, on the quarter 1, revenue growth in formulations especially, since we had called out and rationalized a lot of portfolio on the formulation side through last year and we got a strong growth number this year, so does that mean that all the excess growth is attributed only to the disease outbreak? And the underlying growth is still whatever you're expecting, around 8%, 10% on the formulation side? Those are 2 from my side.

Rajaram Narayanan: Thanks, Bhavesh. So first, we've been indicating a little bit more of a 2- to 3-year journey. And I think on a 2- to 3-year basis, what we've indicated is that in FY '24, we would close that double-digit margin. In FY '25, we should be around mid-teens. And thereafter, our target is, very quickly, high teens margin, right? So that's really what we have indicated in terms of EBITDA margin, and we have said that over a 3-year period, we expect the top line to be in the early double digit growth.

So I think on a 2 to 3 year basis, that's basically what we should be and this year could play out on that average right now. I know we started well in the quarter and I'm hoping that we'll be able to take advantage of the momentum and go ahead, but these are also -- there is something that, I think, in these businesses, it's also -- some of it has got to do with the basis of the same quarter last year, etc.

But we would be confident to say that early double-digit top line and a mid-teens margin by the end of the year is what should be expected for this year, if not better. And the rest, for going ahead, we've already given an indication. So at this point of time, the plans are going in that direction. On the other part of it, on formulations, on base growth versus the thing, look, the base growth is very clearly an important driver.

And in every formulations business, there are 2 kinds of base growth related. One is after discarding the portfolio, so I think on a continuing portfolio of last year versus this year, the volume growth would continue to be, I would imagine, between 5% to 7% on most of these markets. Then there is some pricing growth. And of course, we have got some spike for this particular quarter, which has come make with some additional sales, which we have done on account of being available in that thing.

I think it's very important to understand this area of disease because it is not that the disease outbreak does not happen every year. It happens every year. The intensity of it varies. Sometimes it works for a particular product we have. Sometimes it works for a particular product we don't have. Second, there are other companies which serve this opportunity. And what has happened for us is that we have entered this segment now, this segment of vaccines.

So the opportunity we had not got it would have been by somebody else, and this has therefore also given us a chance to start pretty much a new line of activity, which is to be distributing vaccines. And right now, it is one vaccine, and we expect to hopefully add some more for other innovators as we go along in the next 12 to 24 months.

So yes, there is some spike over this thing. But that's how the animal has portfolio or in fact, any of the disease-related therapies play out. There will be spikes and there will be downs at different times. But on a full year basis, I think it would continue to hold to the guidance that we have given.

Bhavesh Gandhi: Okay. That was helpful. And with your permission, I had one more. So on the India business, I don't know if you called out when can you expect the Zoetis product solution to be back. So I think in the previous call, we outlined it to be online by July/August, so anything -- any update on that front?

Rajaram Narayanan: Yes. So first of all, we are distributing for Zoetis, a range, and it is just that one of the products which was, of course, reasonably large and that portfolio was the one which was not available. We expect it on the second half of the year to come back. I had indicated August. It could spill into the second half of the year.

Moderator: The next question is from the line of Bharat Sheth from Quest Investments.

Bharat Sheth Let us go back earlier over the 3 years successful journey on relative 2, which is, I mean, clocking sales now into mid-teens kind of top line growth and high teens kind of EBITDA margin. So just to understand you a little bit and what will be the growth profile also end of the third year? So first, to understand this a little bit, what would be the debt profile also end of the third year?

Sir, would it be -- if you can give a little more color to how this is going to play out, like, early manufacturing days, distribution base as well as new vaccine and animal contribution to the top line and product portfolio and geography expense and any kind of strategy, if you can give a little more color? And last, so far, Turkey has been stable, but what are our internal initiative to lock it and remain on the stable place?

Rajaram Narayanan: So thank you, sir, for this. I'll -- probably because there is clearly a long-term strategy and maybe I'd be happy to have a one-on-one discussion with you sometime when you can call in and we can explain a bit more on beyond the call on how it would play out over 3 years, although in different pockets, we have done that.

Now as far as the business is concerned, I think the first phase, which was making sure that we have got a margin structure which is competitive, I think we had started that journey. This is a treadmill. We can't sort of ever say that we have completed it. So we started a journey. We will be on it. On the second part of it, which is on beginning to drive top line, we have started that now in Europe and in Turkey and in India.

So how does this play out? As we have said that there are a couple of growth areas for us. One is in terms of more products in the companion animal side, whether it's APIs or whether it is in the area of formulations. That is not yet fully developed. It is less than 5% of our business at this point of time. And we would like that to grow substantially to at least, as I have indicated in the past, coming to 15% over a 3- to 5-year period, right? So that's what we really want to take it to.

The second part of it is in terms of which businesses will grow. Well, I think both the businesses have an opportunity to grow in early double digits. But among the 2, it will really depend on where we make some inorganic moves. And whichever kind of licensing or acquisition comes faster, I mean that particular business will probably accelerate a bit more than the others.

The third part of it, as far as Turkey is concerned, I think it will be premature to say that everything is behind us. But what I must say is that we have taken actions which are appropriate for that kind of an environment, which is relatively high, which is high inflation, unpredictable in terms of currency. And those actions which we took almost 1 year ago has begun to help us when the economy has started stabilizing.

Unlike some other companies which opted to completely scale back and either exit, because we are there, we have improved our market share. And as the market is stabilizing, I think we will continue to gain market share. Having said that, it is not a steady market yet. But it's a high opportunity market. It is amongst the largest in the world, and we are also very strong over there. So we have to learn to create, in an agile manner, in that market.

So I think it's going to be us being more responsive to that. So far, it has been good for us. We hope that we will continue to maintain this going ahead. But this is something that we will monitor quarter-to-quarter going ahead yes. On the last part of it, which is really on the long-term debt situation, while you get sort of the chance to get specific numbers if we have, but directionally, we don't think this should be an issue for us in the next 2 to 3 years, yes?

Saurav Bhala: Yes. So Mr. Bharat giving specific numbers is difficult. But as Raja said and as I also mentioned, we are at the highest level. And going forward, we see, as the business grows really, really well and operating cost flow increases, our debt should keep on going on steadily. Next 3 years, depending on how the business performs, our understanding is that debt would be substantially lower and the interest cost would be very negligible as compared to where we are. That's what we can share at this point.

Rajaram Narayanan: Yes. Thank you, sir. But as I said, more on the strategic part, I think on 3 to 5 years. We can always have a discussion on that one on one and anyone wants to do that. Yes. Last question, if we can just go on before we close.

Moderator: The last question is from the line of Sachin Kasera from Svan Investment Managers.

Sachin Kasera: Congrats on a good set of numbers. I had first 2 questions on the business side. On Turkey, you mentioned about certain export opportunities. So if you could dwell up on that as to what type of export opportunities are there from Turkey that can be meaningful over a short to medium term? And secondly, if you could talk a bit about your U.S. business strategy?

Rajaram Narayanan: Sorry, what's the second question?

Sachin Kasera: On the U.S. business strategy.

Rajaram Narayanan: Oh okay. So let me answer the second question quickly. After we have closed our German operations and which was around 18 months ago, which was meant to be developed eventually as a U.S. FDA plan. I think we have, at this point of time, put that project on hold, as I said in the last quarter as well. We do have an opportunity in terms of having existing completion of dossiers, etc.

As well as having identified CMOs for that, but it is, for us, a lower priority at this point of time as we are growing in some of the other markets that we are. The -- and therefore, I think from a short-term point of view, which I would say is the next 12 to 24 months, it's unlikely that we will do any kind of acceleration on the U.S. project.

On the first part of it, on Turkey, as far as exports are concerned, Turkey is an important location and base for exports to Middle East, North Africa. And we are seeing the exports of that business grow out and grow every year. It serves us 2 purpose: Of course, commercially, it is an attractive business; but also, it helps us hedge any foreign exchange requirements that the Turkish business has for its own imports.

So we are seeing that business grew, right now, quite substantially. In fact, in first quarter, I think we have almost doubled the business versus the same time last quarter. I've indicated in the past broadly that we, today, export about 50% of what we import equivalent value, and that is something we intend to neutralize and make our exports equal to imports in the next 12 to 18 months.

And that would of course, hedge us naturally from any kind of foreign exchange exposure, but also, it's a useful market opportunity for us. The other positive news for us because of the efforts from the Turkish business is that our plant is now certified EU GMP, which means it's end-supply from our Turkish facility to the European Union as well.

And that's an opportunity which has opened up. Because in the past, we had a plant in Germany, which closed down which used to supply from these products to other countries in Europe by -- because Turkey has now got certified for European supply, we would be in a position to reactivate some of the discontinued business from Germany and launch it or reintroduce it from Turkey. It will take us 6 to 12 months to do that, but that's very clearly a big positive upside for us after 12 months.

Sachin Kasera: I had a couple of questions, a follow-up on finance and one on M&A strategy. You have mentioned about the fact that we are looking at opportunities in terms of acquisitions and M&A, but consider that our bench is a little bit leveraged right now, so is that something we'll do maybe sometime later? Or in that synergy, we may look at some sort of equity fund raise to be able to manage that? And a couple of questions on the finance is that we used to operate at 80, 90 days of working capital? We are now at 110 to 120 range. So can we go back to those old days that used to have 3, 4 years back? Or it's now 115, 120 a new norm for us?

Rajaram Narayanan: So I'll answer the first one on the ability to make the M&A effective. But clearly, we are not going to be undisciplined. Our balance sheet does not allow us to do anything which is of a large scale. Having said that, we have a very committed investor with us and our -- and there is nothing that's prevent us from taking any advantage of any opportunity which comes through a different model, yes. So our principal promoter continues to be very supportive.

And if there is any opportunity which comes, I don't think finance will be a challenge for us. It may not be something that, on the first instance, we may do ourselves. But for small bolt-ons, which are required in terms of partnerships, etc. Which are not too expensive, I think we'll be able to do that. But even large transactions, there are different structures which we're available to do without it necessarily being funded from our balance sheet right now. On the second part on working capital, I think Saurav.

Saurav Bhala: Yes, I'll take that. So on working capital, you are actually seeing there is increase, but that increase has to be taken in context of our geographical spread across the group. And because of the geographical situation in the last few years, where we see various diseases, you do nonavailability of containers, delays and dispatches, delays in transit time, all has impact on the working capital.

Our focus on the working capital remains very, very strong. And we are trying to optimize all the ways possible geography-wise. But the situation may not improve very, very soon. And we must resume the working capital to be range bound. I'm going down gradually as the situation improves or eases. That's how we are looking at the situation as of now.

Rajaram Narayanan: Okay. I think -- thank you very much. I think it's come to the end of the call. So I just want to thank everybody who is on the call for joining us, and thank you for supporting us through this entire period. I look forward to seeing you in the call, the next quarter earnings call, yes. I wish you a good day. Thank you very much.

Saurav Bhala: Thank you. Thanks for your support.

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