



“SeQuent Scientific Limited
Q1 FY '26 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to the SeQuent Scientific Limited Q1 FY '26 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

Abhishek Singhal: Thank you, Manav. A very good morning to all of you, and thank you for joining us today for SeQuent Scientific's earnings conference call for the first quarter of financial year 2026. Today, we have with us Mr. Rajaram, MD and CEO of SeQuent Scientific; Dr. Hari Babu, Whole-Time Director and CEO of Viyash Life Sciences; Mr. Saurav Bhala, CFO, SeQuent Scientific; and Mr. Ramakant Singani, CFO, Viyash Life Sciences, 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 the 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 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 Rajaram to make his opening remarks.

Rajaram Narayanan: Thank you, Abhishek, and good morning, everyone, and a very warm welcome to all the participants today. Joining me on the call is Dr. Hari Babu, Whole-Time Director and CEO of Viyash Life Sciences. And I also have with me Saurav Bhala, CFO for SeQuent; and Mr. Ramakan, CFO of Viyash.

We released the results of the first quarter last Friday and the details are available on our website. I hope you've had an opportunity to go through the presentation. The consistent improvement in results over the last few quarters signals that there is more behind the numbers. It signals a transformation in the way we have operated and deliver value. We have moved beyond consolidation and course correction into a phase of accelerated growth as we shape a future-ready company.

Coming to the performance for this quarter, I am pleased to announce that we have continued our strong performance in the first quarter of FY '26 with revenues at INR4,414 million, reflecting double-digit year-on-year growth of 13.1%. This performance has come in with strong margins. There was nearly a 25% growth in pre-ESOP EBITDA, which touched a new high of INR602 million and at a margin of 13.6%, which is in line with the recent performance of mid-teens EBITDA.

This improvement in financial performance, along with the forthcoming merger, provides us ample headroom to support investments in existing segments as well as support new

opportunities for growth. We are also seeing a substantial improvement in our profit after tax, underscoring strong control on all line items.

While Saurav will delve deeper into the financials, let me briefly cover the business aspects. Our formulation business, which accounts for 75% of our business, continues to deliver broad-based growth. It sustained a sales growth of 13% versus last year and 11% on a sequential basis quarter-on-quarter.

This was driven by a strong performance across all key geographies. In Europe, the business year-on-year grew at 4% despite having a very high base. Sequentially, it was a 20% growth. This upswing in performance was led by a higher companion animal sales and increased exports ex-Europe. We successfully concluded the GMP approval of our Spanish manufacturing facility, which now prepares us for introducing new products in the next few quarters.

In emerging markets, the 25% year-on-year growth was supported by higher exports along with some judicious price increases, changes in the product mix for delivering better margin sales. We've also expanded our Mexico business. We now have established front-end presence in Mexico, which is a large market for animal health. Our Turkey business continues to grow, helped by a stable macro environment situation and acceleration of exports from Turkey.

Our India formulations business has progressed well in a quarter that is relatively subdued due to seasonality. The business delivered a sales growth of 8% over quarter 1 FY '25 on the back of field expansion, which was done last year. India remains a key priority for driving our growth ahead. And in order to strengthen our presence, in this quarter, we concluded the second phase of field expansion to support our brand building efforts. This will result in stepped-up revenues in India as the full impact of the expansion sets in.

On the API front, we are seeing results of all the initiatives taken in the last 6 quarters. The business gained momentum, touching the INR100 crores mark for the quarter and delivered growth of 14% year-on-year and 21% for the sequential quarter. This has been achieved with competitive margins and an improved product mix. The sales of our top 10 customers came in at over 60% and we continue to have most of our sales realization in hard currency.

We have received a new EU CEP approval during the quarter, in line with our plans to continuously add new markets and new products. The demand for our high-quality WHO-grade albendazole has been very strong. Finally, the proposed merger with Viyash Life Sciences is proceeding on track and we will answer any queries during the Q&A session.

I would like to take this opportunity to thank the entire team of SeQuent and Alivira and all the stakeholders involved for bringing to reality a strong start to this financial year.

I will now hand over to Saurav to share the financial details of SeQuent and then invite Dr. Hari to share the highlights of the Viyash performance. Over to you, Saurav.

Saurav Bhala:

Thank you, Raja. Good morning, everyone, and thanks for joining us today on the call. It is my pleasure to present SeQuent Scientific Limited's financial results highlights for the first quarter

of financial year '25-'26, a quarter marked by strong execution, strategic progress and sustained momentum.

Q1 financial year '25-'26 key highlights as follows: Total revenue is INR4,414 million, delivering a healthy growth of 13% year-on-year and 10% quarter-on-quarter basis. Formulation revenue is INR3,379 million, growing 13% year-on-year and 11% quarter-on-quarter. API revenue is INR1,054 million, growing 14% year-on-year and 21% quarter-on-quarter basis.

Our gross margin improved by 180 basis points year-on-year, rising from 45.1% to 46.9%. The adjusted EBITDA is INR602 million for the quarter, marking a robust growth of 24.7% year-on-year basis and a 5.7% on a quarter-on-quarter basis. On a year-on-year basis, the Q1 adjusted EBITDA margin expanded by 126 basis points from 12.4% to 13.6%. The profit after tax for the first quarter is INR176 million, delivering a strong growth of 93.7% year-on-year basis and 69.7% quarter-on-quarter basis.

Coming to merger update. On the strategic merger with the Viyash Group, I'm pleased to share we have cleared key regulatory milestones. The Competition Commission of India and Stock Exchanges have provided their approvals and the required NCLT filings are complete. The NCLT has called for a shareholders' and creditors' meeting, which is scheduled on August 30, 2025, keeping us well on track to complete the merger process as per the estimated time lines of 12 to 15 months from the merger announcement date done in September 2024.

In conclusion, our strong operational execution and strategic momentum in Q1 financial year '25-'26 affirms our commitment to profitable growth and value creation for all the stakeholders. With the good progress of our merger process with Viyash Group, going ahead, we are well positioned to [inaudible 0:09:33] synergies and deliver long-term sustainable performance. We remain vigilant to the market dynamics and continue to prioritize innovation, focus on cost efficiency and drive profitable growth.

Thank you for your attention. I will now hand over to Dr. Hari for sharing insights into the Viyash Group's performance. Thank you.

Hari Babu Bodepudi:

Thank you, Saurav and Raja. And first of all, congratulations for your great performance. And good morning, everyone. So let me take you through Viyash and also combined performance now. Viyash recorded strong performance in Q1 with revenue growth and margin expansion year-on-year.

For Q1 FY '26, revenue grew by 4% to INR353 crores and adjusted EBITDA grew by 19% year-on-year to INR68 crores. Viyash had EBITDA margins of 19.5%, which is an improvement of almost 2.4% year-on-year. The current margins are in line with our medium-term aspiration of 20-plus margins. In line with previous quarters, Viyash generated strong free cash flow in this quarter also. So now our current net EBITDA ratio is less than 0.3 with adequate headroom for growth.

So now coming to the key operational updates. So we had five regulatory inspections last quarter. In fact, one day, we had two US FDA audits in two sites and one Europe audit in the same month and other few other regulatory inspections, all went through very well. I think this shows the

strong quality culture of Viyash. The two sites, both US FDA audits, we received EIS now. Both are actually [VI 0:11:36]. So that means actually the outcome was very good. In addition to that, regulatory audits, we had a large number of customer audits, which are very important for regulatory markets. We faced almost 30-plus audits in the quarter.

And coming to the R&D, which is most important for our growth. As you guys know, Viyash built based on R&D capability. So we validated three products last quarter. And we filed almost 12 products for various countries, which includes Europe, US, Korea, Saudi, most of the countries. And also, we have filed five finished dose products in US. And coming to the regulatory approvals, we received five approvals for API. From that one US product and three for CEP Certificate of Portability and one more for Europe. And also, we received finished one dose product approval in last quarter.

Coming to the launches, we launched two FDFs in US last quarter and also two APIs in various markets. And R&D pipeline, as you see, continuously, we have a strong pipeline. And currently, we have around 20-plus products on the pipeline and we are actually expected 10 to 15 products development as well as filing this year as anticipated.

Coming to the combined performance. Combined both companies have grown very strongly last quarter. For Q1 FY '26, combined revenue of two entities grew by 8.7% year-on-year, and most important, EBITDA grew by 21% year-on-year. The combined business had an adjusted EBITDA of INR129 crores with 16.2% margins with an improvement of 1.7%. The combined net debt to EBITDA is around 0.6x lower than actually 1x last previous year corresponding quarter.

As updated last quarter, we have started to plan for integration of the 2 companies and realizing synergies. Of course, as Saurav explained, we received the CCI approval, SEBI approval. Now it's process is going through the NCLT and we anticipated approval as expected.

Coming to the synergies, whatever we explained in previous call also. So the 4 areas what we focus, first -- main was R&D always. As we explained last quarter, R&D already integrated, both teams are working together. And also, we started portfolio discussion combined.

So in R&D, there are two, three important things. One is, of course, product portfolio is very key for the growth. Second one is the cost improvement. So third one is manufacturing, of course. So R&D already, we started collaborating, working together. We initiated portfolio, and it's a lot of improvements we can see next few quarters.

Cost improvement also we initiated last couple of years. Of course, it's a continuous process. And UK, we already started seeing the margin improvement for both companies. That's a part of cost improvement. And coming to the manufacturing, this is the large synergies we are expecting.

Already, we started qualifying the products wherever the free capacity, a couple of products already initiated. But you know the regulatory process, it takes some time, 12 to 24 months. The process is continuing and we are doing very actively on that perspective. And procurement

synergies, already we started negotiating combined wherever there are common materials and it's working very well on that perspective.

Sales, as I explained last quarter also, there are synergies for both sides since SeQuent is operating most of the API business with innovators. That's where we see opportunity for Viyash to improve the business with innovators, started working. I think it's going to materialize in the next few quarters on that.

And mostly synergy is -- I can say it's happening. It's better than what we anticipated. But the regulatory framework, whatever it allows us, we are working on that, but it's working very smoothly. Both teams are working very closely. And also, we started working on strategic direction, both organized structure as well as next 3 to 5 years combined company, what we want to do. That type thing will come up in next 2, 3 quarters.

With that, thank you. I'll hand over back to Abhishek. Thank you guys so much.

Abhishek Singhal: We are good for Q&A now. Can you please open the floor for Q&A now.

Moderator: We have our first question from the line of Shiwani from Monarch Network Capital.

Shiwani: Yes. Congratulations on good results. I have two questions, one for SeQuent and one for Viyash. So I'll begin with SeQuent question. So my question is that if we see the geographical mix, year-on-year, Europe and India has been a single-digit growth, whereas we see emerging market growth has been around 25%, which is good.

So I wanted to understand what's happening across the geography. And in emerging markets, I understand that we have added a few more markets. So if you can give a sense on how we are seeing the market panning out, especially with geopolitical issues also? And what is way forward for these markets?

Rajaram Narayanan: And the second question on Viyash?

Shiwani: I'll take the second question after this one, if that's okay?

Rajaram Narayanan: Okay, fine. So thank you, Shiwani, for the question. Yes, overall, I think we've started hitting a good double-digit growth. And some of the differences are that emerging markets, of course, the growth is coming because there is an opportunity to expand to new markets. There's also exports, which comes from -- one of the things we are doing is that we've created export bases, both in Turkey as well as in Spain, which is there for serving other markets which are nearby. So exports is doing it.

Emerging markets, we also added Mexico. We are adding new markets. So that's in general the momentum which is there in emerging markets and I think we should expect that business to keep growing in double-digits.

I think on Europe, it is -- what you might have seen now is more a function of a large base, which was there at the same quarter last year and that is why you might see a single-digit growth.

But we have in the recent quarters also delivered double-digit growth on Europe as we have added more products, particularly when we started the distribution of vaccines.

So we do expect that Europe is more a function of which quarter we end up having a large disease outbreak or a vaccination season. But on a full year basis, we still think that that's a market which should come close to double-digit growth in any case.

The last bit about India, I think India was prioritized around a year ago. And we have begun to see double-digit growth even in India. We should be -- in fact, there are quarters when we have done over 20%. We have now added field force in India. We had a substantially smaller footprint in India in terms of number of people on the field.

We had less than 100 people just a year ago. We now have about nearly 200 people on ground. And therefore, as the quarters sort of begin to realize the full impact of the people we have added, we expect this market also to begin to go into double-digits.

So I think -- and also, I think you'll remember that there is a seasonality factor which varies quarter-to-quarter in different countries. So there are some quarters where some country may be on a lower market growth, while the other markets may be higher. So -- but on an average, I think we expect this business to consistently move into double-digit growth.

Shiwani:

Sure. Just a follow-up. When we say seasonality, you also mentioned that India business was impacted because of the seasonality factor. So what is the seasonality factor in Q1, if you can clarify that?

Rajaram Narayanan:

Typically, what happens is that a lot of animal health medicines -- and India is largely a dairy cattle business and it tends to get affected to some extent by the rural economy, which is over there. And also the outbreak of diseases depends to some extent on the kind of climatic conditions that might happen in that particular quarter.

So you could have a situation where the same quarter last year may have had an outbreak of a disease because of which there was a substantially higher spike in the sale of medicine, while the same quarter this year may not have seen the same outbreak in disease and that might happen a couple of months later. So I think there's a bit of a variation which tends to take place quarter-on-quarter. But on a full year basis, I think the secular trend should be in double-digits always.

Shiwani:

Sure, sure. I also have one more question for SeQuent, which is for API business. You did mention that albendazole sales have improved and it's seeing strong demand as well. What about other APIs? I mean, how is the API business performing and what to expect? Because API business have been slower initially.

Rajaram Narayanan:

So we're getting the growth in both. I think we have signaled albendazole because albendazole, there is a demand coming in from WHO recently because we were prequalified for supply to formulators who are supplying for WHO. -- tenders and their requirement. But otherwise, even on some of the other APIs, which we make, which are non-albendazole APIs, there has been -- this quarter, there has been a growth even in those APIs.

But I think the most important thing for us is that we need to accelerate our new product introduction and R&D as far as the other APIs are concerned outside of just albendazole and the anthelmintic range. And that's the effort which is going on. So it has been a good performance for us, driven both by albendazole as well as the non-albendazole range. But I think going ahead for us, the larger drive will be on the non-albendazole range.

Moderator: We have our next question from the line of Vishal Manchanda from Systematix Group.

Vishal Manchanda: Sir, congratulations on a good set of numbers. Just wanted to understand on the API business, after a long time, we have exceeded the INR100 crores number on a quarterly basis. Can we sustain this run rate?

Rajaram Narayanan: Yes, I think this is a rate which we've been aspiring for. We've also done this in the past. We did have some surprises and setbacks in the past, which we have spoken about. So I think INR100 crores is the rate which we would be targeting. And with the merger around the corner and more inputs coming in, in terms of the R&D pipeline, there's no reason why in the next few quarters we should not be sticking to this kind of a run rate or more.

Vishal Manchanda: Right. And even on the gross margin front, there has been an improvement on a Y-o-Y basis, while there is a drop on a Q-o-Q basis. So could you explain this like the Q-o-Q drop and Y-o-Y growth? Is there some seasonality element here?

Rajaram Narayanan: Yes. So there is -- in general, I think we are having a margin improvement, which is happening on account of initiatives, both on the cost line as well as on the product mix, right? And both these have given us margin improvement, both in formulations and on APIs. So that's why you see a quarter-on-quarter -- year-on-year growth.

Sequentially, some of it is also because of product mix. We did have a substantially higher profitability mix, which was specific to last quarter and that got a bit reduced. It was not there this quarter. So you will find that the line is still in the area of 48%, 49%, but you could have some sort of swing between the last quarter and this quarter. But directionally, if you take it over 3, 4 quarters, we would continue to be moving towards the 50% line on gross margin.

Vishal Manchanda: Right. And like any focus areas in terms of the animal health formulation business that -- so in terms of whether pet is a more focus area for you? And any geographies that you're specifically focusing on in terms of building the formulation business?

Rajaram Narayanan: Yes. I think we have looked -- said that companion animal is a priority. We are looking at it in 2 ways. One is wherever we have a front-end presence already, like in Europe, we have begun to distribute for some other companies and also launch some products of our own. But I think if you want to make it bigger, we'll have to look at a slightly more aggressive move, which is always under consideration for us in the next year or so.

Having said that, we are also doubling down heavily on India because this is a market for domestic growth, which is very crucial for us. But for us, the big advantage is wherever we have a front-end business, which is India, lots of markets in Europe, Brazil and Turkey. In these

markets, we would focus on introducing new product range, largely in the area of companion animals.

Vishal Manchanda: Okay. And we are still looking for the injectable -- growth in the injectable business as an area to build margins and maybe accelerate top line?

Rajaram Narayanan: So injectables, we have a factory, which is there in Turkey. That plant has now got an EU GMP, and therefore, we will expand supplies from Turkey into European markets also for injectables. These injectables are largely for food production animals and not so much for companion animals.

But the injectables, obviously are -- there are fewer companies which are in injectables and the margins are obviously better than that. So yes, we will be growing injectables fast. We are, of course, looking at other opportunities and other markets in this area right now.

Vishal Manchanda: Okay. And just one final one on -- if I can just ask one more. On albendazole, we always had a US VMF on albendazole. So was that not good enough or this WHO prequalification is kind of incrementally helping you?

Rajaram Narayanan: I think they are separate markets. The US VMF is for supplies to the United States. The WHO purchase is largely for supplies, which are made to the developing markets for various donation programs as well as local countries which sort of use it. So these are two completely different market requirements.

Moderator: We have a next question from the line of Rachit Kabra from Anand Rathi.

Rachit Kabra: So I would like to know like is there any risk of like the input costs rising or going up due to the dollar strengthening?

Rajaram Narayanan: I think I'll pass this question to Dr. Hari. Maybe if you can give us some color on that.

Hari Babu Bodepudi: We don't see any risk because exports are more than imports, much more than -- I don't see any impact on that. Of course, wherever there is a risk, we have cover it. I don't see any negative impact on that perspective.

Rachit Kabra: And my next question is like you had earlier said that Turkey would become a base for more exports. And can you update on the plan, what the plan has been and how it has been going forward?

Rajaram Narayanan: Yes. So when we started doing that, the original sort of requirement was that we wanted to make sure that we were foreign exchange neutral, and that's why we started exports. But now Turkey is becoming -- because of the injectable manufacturing plant which we have over there and the fact that we've got a EU GMP license which has been given to that plant, the opportunities to export beyond just neighboring markets has increased. And we are looking at a couple of launches coming in the next few quarters, which will be for supplies into Europe.

So yes, so that plan continues and it is, in fact, accelerating now. Also, the economic condition there is a bit more stable than what it was, say, 6 quarters ago. And that makes it a bit easier for us to be able to look at more B2B contracts for that.

Rachit Kabra: And if I could continue with one more question?

Abhishek Singhal: Go ahead. One more, yes.

Rachit Kabra: Yes. So we have seen a PAT improvement substantially compared to the last year. So what are you targeting for this year? Any ballpark number?

Rajaram Narayanan: I don't think we'll give any guidance on PAT right now. I mean we have given you guidance on margins, on the adjusted EBITDA margin. I think we will hold to that. Of course, the attempt is to make sure that it gets converted into much higher PAT. So we expect the PAT growth to be well ahead of the EBITDA growth for both the -- as we begin to go on.

So I think what you should expect is that the PAT growth will be ahead of EBITDA growth. And the EBITDA guidance we have given you already saying that on the SeQuent side, it would be closer to the mid-teens for this year and we were looking at the high-teens on the Viyash side. And hopefully, by the end of the year, we would be able to come back and say that we are on the higher side on both.

Moderator: We have our next question from the line of Amresh Kumar from Geosphere Capital.

Amresh Kumar: On the gross margin side, sir, you said it can reach or trend towards 30%. So are we building in some merger benefits from this or how do we reach there?

Rajaram Narayanan: Sorry, I don't know what you are -- so on the gross margin line, I think on the SeQuent side, we have indicated that it will come closer to the 50% as we begin to move on. Viyash is obviously ahead of -- well ahead of that already. And yes, we should see some benefits. I will hand over maybe to Dr. Hari to expand a bit more on what can -- what are possibilities on the gross margin side.

Abhishek Singhal: Dr. Hari?

Rajaram Narayanan: Is Dr. Hari there?

Moderator: Sir, his line got disconnected.

Rajaram Narayanan: But yes, just to recap, we have been operating at the 45, 46 kind of a level. We have moved up now to about 48, 49. And our target is to move to the 50 soon. And Viyash, of course, is always ahead of -- much higher than that. So -- and the benefit, while I wait for Dr. Hari to join...

Abhishek Singhal: Meanwhile, can you ask can you ask your next question?

Rajaram Narayanan: Can you ask your next question and I can...

- Amresh Kumar:** Yes, sure. On the R&D front, you said that you are in the process of introducing or working on some more products. So it would be great if you can kind of expand on this a little bit?
- Rajaram Narayanan:** Yes. I will just wait for Dr. Hari, he got disconnected to sort of like -- so two questions. One on how the improvement in gross margins may come in the next few quarters after the merger and the synergies? And the second, I think, is on what can we look forward to in terms of R&D, new products and pipeline?
- Hari Babu Bodepudi:** So as I explained, R&D, we are adding a lot of products to both companies because Viyash is having a very strong portfolio. Every quarter, we can see approvals as well as new product filing. So we started adding SeQuent portfolio also since both R&Ds are working together. So now the outcome is much better than what was earlier.
- But definitely, next few quarters, it's going to add a lot of products even for animal health basket. But of course, you know the current regulatory scenario, once you start developing the product, development and approval, it takes its own time, but we are trying to work as quickly as possible.
- Coming to the gross margin improvements, of course, the entire strategic direction we are working on, and as explained last quarter also, so we are going to -- we will present maybe next quarters with a detailed investor presentation. We will come up in the next 2 quarters. But definitely, we can see a lot of gross margin improvements because of various things.
- One is definitely network optimization, always, as we explained, wherever there is a capacity. Viyash, we are running capacity utilization around 60%, 65%, whereas SeQuent actually the one site is fully occupied, other site is still there is a capacity to add more products.
- So with the utilization of the capacity, definitely there is gross margin improvement. And most important, our R&D capability of cost improvements, that's going to play a major role. It's going to improve a lot. But whatever we explained earlier by '27, both companies together definitely will be around 20%. That we are on track.
- Moderator:** We have our next question from the line of Kaustav from Boundless Management Solutions.
- Kaustav:** My question is for Dr. Hari. Because of the exposure of Viyash to the US markets, I wanted to understand a lot has changed in terms of expectations or opportunities coming from the US because of, let's say, regulatory factors. About a year ago, we had this opportunity -- potential opportunity from the US Biosecure Act.
- Now we move forward a year and Trump has come in and he's talking about these pharma tariffs. Also, there's a little bit of lack of clarity in how the distribution would change the impact of pharmaceutical benefit managers. So how do you look at this? How do you assess the situation and the impact on the combined entity, Viyash plus SeQuent together?
- Hari Babu Bodepudi:** No, I think our perspective, I see more opportunity than issue. Why? Because current our exposure, of course, SeQuent exposure is not -- is very little for US And Viyash API exposure, direct exports are very little, in fact, I think 2%, 3%. But overall, it may impact indirect exports

also, whatever we supply to Indian companies where they formulate and export, there may be impact. But all put together, it's around 17%, 18% of our exposure on the US market today.

And other than exports from India, we have formulation business in US and manufacturing site also is in US And we see both sides, it's opportunity as well as actually the issue, but I strongly believe we have a great opportunity. Why?

Because our exposure is a little less. And most important, if you see our regulatory strength, so last 12, 15 months, we were able to manage 5 US FDA audits and without any issue. That's a great asset for us. And also handling the same day 2 audits it's not easy for any company, but our team demonstrated that. And SeQuent also, whatever we had audits, it went through very well.

So we see, US, definitely, there is more opportunity for us with our R&D strength, capability to differentiate products, whatever you can see from US perspective. And also SeQuent, definitely, there is opportunity to grow a lot in generic animal health play. You can see generics started penetrating in US That's where we can see the opportunities. But we -- I strongly believe more than threats, we have a great opportunity.

Of course, we are trying to relook at re-strategize even our formulation business, okay? Since we have US sites, if we put tariffs, that's a big advantage for us. But that could be the short term I always see. But long-term strategy, okay, wherever is a low-cost base manufacturing is always good. So we are working on various aspects, especially in the formulation.

We are trying to take out low-margin, low-volume products, which improve margins. That you can see this quarter, whereas our margins, EBITDA improved a lot, but top line growth is very less. That's one of the reasons was we are trying to take out actually low volume, low margin products, which actually substitute with the new products.

So we are coming up with a lot of new products where the margin profile is much better than mature products. So that's how we can see opportunity for us. And Biosecure Act, of course, all our facilities, we are moving towards actually meeting any standards. So that's also we see a lot of opportunity with this...

Kaustav: But -- if I could just interrupt on the Biosecure. Since the government changed, what's the view on Biosecure Act? Because it's been shelved, right?

Hari Babu Bodepudi: If the government change of US or you mean to say what?

Kaustav: Yes, yes, for the US

Hari Babu Bodepudi: The current government, whatever is the Trump policies you're talking, right, or the new government comes?

Kaustav: The current Trump government.

Hari Babu Bodepudi: Yes. It's actually anything -- Trump, he can actually stay another 3 years, right, 3, 3.5 years. All these products, whatever we are talking, Biosecure Act, it takes its whole time 3 to 5 years, any

product moving here or there. It's not easy just like that actually moving out all Indian products to somewhere, all Chinese products to somewhere. It's impossible to do that.

So there is a regulatory guidelines. There are actually the customer expectations. It's a process. This cycle, how long it took to move out from China to India, some extent, still going on. Last 5, 6 years, it's working very actively government. But still the shift is not substantial. So it takes its own time. I don't think it's going to change next 3, 4 years drastically on that perspective.

And the fact is there's no alternative for India. The only either China or India, right, for all these things where there is a large manufacturing, large resource capability to do these things, only these countries. So they won't go back to the China, right? So still, I see there's a good opportunity for India and also ourselves.

Moderator: We have our next question from the line of Bharat Sheth from Quest Investment Advisors.

Bharat Sheth: Congratulations, Hari Babu and Rajaramji and team for a super performance. I have 2 questions for SeQuent. One is that we -- like what Hari Babu said, even in SeQuent also, we were, I mean, moving away from low-margin product and hence our top line was getting affected. So at current stage, where we are in this portfolio and when we really start seeing a larger benefit in terms of top line growth?

Rajaram Narayanan: And your second question, Bharat bhai?

Bharat Sheth: And sir, I mean, second question is now like in Spain, which is making a good margin and profit, there we have only 60% holding. Any plan for consolidating 100%? And third question for our CFO. This one-off and ESOP cost, how do we see because it is going at accelerated pace? So how could we think about the ESOP cost in '26 and '27?

Rajaram Narayanan: Okay. I'll just take the question. Bharat bhai, thank you for asking. So one is on the top line. I think we have completed most of the pruning, which was done of low margin. Of course, this has to be continuously done. But now you are seeing that for the last few quarters, the growth rate has moved from 5%, 6% now to almost -- we are talking between 12% to 14% in most, and if you look at local currency. So we expect this to keep accelerating.

So now the growth has to come from 2; one, volume growth of your existing products and by introducing new products. And the third, of course, will come from pricing, right? So these are the 3 sort of levers which will give you the growth coming. So I don't think there is much to do now in pruning of products on the formulation side. Most has been done.

Of course, on API, there is always a pressure on margins because there is always pressure in terms of B2B supplies. But we don't see that this exercise will be continuing for too long. But in all companies, after a couple of years, you once more look at your portfolio and then you have to refresh it depending on what has changed in the market, yes.

Second, I think on Spain, yes, we have a 60%. We have, at this point of time, no immediate plan. It's a very well-run operation. The 40% is owned by the family, which currently also runs the

company. So they are trained veterinarians, local experts. And therefore, we are very happy with what they're doing. So there's no urgency for us to sort of get into that.

And the last question coming on to the ESOP piece, I'll ask Saurav to reply after this. But maybe first, I'll ask if Dr. Hari wants to add anything on the pruning of products and improving projects.

Bharat Sheth: Of course, I have a question for Hari Babu also.

Rajaram Narayanan: Okay, separately. Okay. So then maybe I'll ask Saurav to answer one on the ESOPs.

Hari Babu Bodepudi: Let me complete our SeQuent perspective pruning. It's always margin improvements or top line growth is based on 2 things. One is how efficiently we can run our operations. Second thing is how fast we can bring new products on, especially API because as Rajaram mentioned, formulation actually it's already done whatever we have. It's mostly geographic expansion. There's a lot of opportunities for exporting from Turkey to other...

Moderator: Sorry, sir. Hari sir got disconnected, I'll reconnect.

Bharat Sheth: So meanwhile if Saurav can answer.

Rajaram Narayanan: Okay. Just complete the question.

Saurav Bhala: Yes, Mr. Bharat. So on two points. First, I'll take on the exceptional item. If you see exceptional, there is no exceptional coming in the first quarter other than the merger-related expense, which would continue for next 2 quarters because as the merger progresses, there are milestone-based payments, which will happen in this year. Apart from that, we are not seeing any one-time or exceptional kind of expense, which is all taken care of.

On the second part, ESOP. ESOP, as I explained in the last call also, ESOP, we have mostly done the vesting of SeQuent ESOPs and the base of the last year retains. Next 2 years, it would be in the similar lines. It will not increase because of SeQuent ESOPs.

Hari Babu Bodepudi: Sorry, guys, I lost again my line.

Rajaram Narayanan: Please continue, Dr. Hari.

Hari Babu Bodepudi: So what I was telling SeQuent margin improvements and also top line improvements, as Rajaram mentioned, all formulation is pretty well streamlined last couple of years. So most important for that is the geographic expansion. That's what I started doing like exporting from Turkey to other countries, Spain to other countries. So it's working pretty well on that perspective.

When it comes to API, especially SeQuent, any API business to grow on two fronts. One is efficient utilization of the facilities and efficient process capability. And the third thing is most important, continuous adding of those new products. So that we missed out last couple of years, but now we are accelerating that both sides. And we can see a lot of improvement in 12 months from that perspective. That's what I was trying to say.

- Bharat Sheth:** Sir, same thing on earlier also, we were looking for Viyash also a lot of, I mean, pruning the portfolio and hence, our top line is not really reflecting, but it is reflected in the margin. So where we are in this journey, pruning of the portfolio and moving to, say, other newer therapeutic like oncology as well as CRDMO opportunity, if you can give some more color?
- Hari Babu Bodepudi:** Viyash perspective, we are very strong. We initiated oncology maybe 18 months back. Within 18 months, we come up very stronghold now. We have almost INR15 crores, INR16 crores in portfolio. Already a couple of products we have filed on that perspective. So similar lines, SeQuent also, we are looking at a couple of -- even animal pet care, especially there's a lot of oncology products either similar or coming in different way. Since we have, we can come up in a strong way in that perspective. These are low margin, for example -- sorry, go ahead.
- Bharat Sheth:** Sorry, sorry. You said, low margin and then top line growth, how do we think about it?
- Hari Babu Bodepudi:** So low margin, large volume, always there is a scope to improve by doing process efficiency or optimizing capabilities. I think that's where we have a very strong team to do that like large volume, low margin, I can say, [inaudible 0:50:39] various markets actually where we operate at the quality market, margins are still reasonably good.
- But still there is a continuous process to improve high-volume, low margin products that we are very much capable to do that. Of course, where there are low volume, low-margin products, that's where we are trying to prune in. So we have very strong process efficiency team to take care of those things. We don't want to drop every product.
- We drop only products where there is no opportunities to see the growth. If the overall volume itself is very low in the world market, we can't see much growth. Those are the projects we are trying to prune in. But high-volume products will continue, will improve as much as possible. And we definitely are going to compete those products.
- Bharat Sheth:** And CDMO opportunity, sir?
- Moderator:** Sorry to interrupt you, sir. May we request you to rejoin the queue.
- Bharat Sheth:** Sir, this is in line with the same question of CDMO, which I already asked.
- Rajaram Narayanan:** Dr. Hari can complete the answer for that, yes.
- Hari Babu Bodepudi:** The CDMO also, as I explained last quarter, we initiated CDMO. We started doing a couple of companies. But we are coming up with a complete strategic direction next 1, 2 quarters. We started building the team on CDMO. If you see our capability, we have fantastic infrastructure, both analytical, EHS and operating. These three are actually core thing for any CDMO business. And we are already handling maybe, I think, 8 out of top 10 innovator companies.
- The next phase of CDMO business, we are trying to do Phase I, Phase II. That we started building the team. We started actually relooking at our R&D expansion. This year, you can see definitely our R&D expansion, both space as well as people. So next year, we will come up with strong

CDMO. I don't want to just come up CDMO just a few things. So we are going to come up very strong on our CDMO next 12 to 18 months, I can say that. We are working on that.

Moderator: We have our next question from the line of Mohd Haris from Monarch Network Capital.

Mohd Haris: Can you provide an update on the companion animal health business? And where do we see it in the next 2 years? And if you can give us the financials in terms of contribution in this quarter?

Rajaram Narayanan: Is that your only question?

Mohd Haris: Yes, that is the only question.

Rajaram Narayanan: Okay. Thank you. So I think companion animals for us, as we have said before, it reflects at this point of time about 5-odd-percent of our total business. We are largely a production animal company, but it's growing fast for us in some markets. So in Europe, for example, we are beginning to now distribute more and more of companion animal products and we are also launching the companion animal anesthetic range, which will increase the share of this business.

Our intent -- plan is that we should double this in the next 3 years in terms of organically on our own products. On the API side as well, there is -- there are companion animal APIs, which have now -- we started getting inquiries for those. We have started, in fact, supplying some of those.

So I expect some interest to increase over there. But other than that, I think from a financial point of view, because it is not big enough, I can't -- we don't sort of report the financials of companion animals separately. Generally, they tend to be quite profitable in line with the current margin or slightly higher.

Moderator: We have next question from the line of Rachit Kabra from Anand Rathi.

Rachit Kabra: So I have a follow-up on like you had earlier said that the company would reduce the debt. So is it still holding true?

Hari Babu Bodepudi: Yes. Still we are evaluating, but we are going to restructure, whatever SeQuent debt you see today. So the interest cost is a little high. We are going to restructure, but we are looking at 2 things. One is clearing complete data or looking for something. So we are -- post-merger, we are going to do this. We are looking for growth opportunities. So we evaluated work on that after post-merger.

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

Rajaram Narayanan: Okay. Thank you very much for being on the call. Thank you, Dr. Hari. Thank you, Saurav. Thank you, Ramakant, and everybody who has attended. So I think you would have seen that we are quite consistent right now in what we indicated a couple of quarters ago when we started doing this call together with Viyash and SeQuent.

Our growth continues to be on plan. Our margins are improving like we have guided. We do expect that the synergies of the merger will kick in fast right after we get all the clearances and

the work on it, however, has already started. So both on the P&L as well as on the balance sheet, we should see a substantial improvement within the first few quarters of the merger sort of getting effective. And we look forward to sharing the performance of the next quarter when we meet with you on the call. Thank you very much, and have a good week.

Saurav Bhala: Thank you.

Hari Babu Bodepudi: Thank you.

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