



“SeQuent Scientific Limited
Q2 FY '26 Earnings Conference Call”
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Moderator: Ladies and gentlemen, good morning, and welcome to the SeQuent Scientific Limited Q2 FY '26 Earnings Conference Call. As a reminder, all participant lines will remain 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 the operator by pressing star, then zero on your touchtone telephone. Please note that this conference is being recorded.

I will now hand the conference over to Abhishek for opening remarks. Abhishek, please go ahead.

Abhishek Singhal: Thank you, Ryan. A very good afternoon and thank you for joining us today for SeQuent Scientific's Earnings Conference Call for the second quarter and half year ended 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, 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 Mr. Rajaram to make his opening remarks.

Rajaram Narayanan: Thank you, Abhishek, and good morning, everyone, and a very warm welcome to all the participants. Joining me on the call is Dr. Hari Babu, Whole-Time Director and CEO of Viyash; along with Saurav, CFO for SeQuent and Mr. Ramakant, CFO for Viyash.

Let me begin today with some good news. Yesterday, the National Company Law Tribunal, the NCLT, has allowed the petition for merger and approved the scheme of merger between SeQuent and the Viyash Group of companies.

The NCLT approval marks the beginning of a new chapter for the combined entity as we build towards delivering a fundamental transformation for the company to leapfrog into the next orbit of growth. We released results of the quarter ended September 30, 2025, last Friday, which are available on our website. I hope you've had an opportunity to go through the presentation.

Coming to the performance for this quarter, I'm pleased to announce that we continued our strong performance in the second quarter of FY '26 with revenues of INR4,240 million, reflecting a healthy double-digit year-on-year growth at 15%. We remain committed to sustainable profitable growth. And during the quarter, there was a 270-bps improvement in gross margin, and the pre-ESOP EBITDA rose to INR657 million, and that came in at a 15.5% EBITDA in terms of the ESOP margins.

You would recall that a few quarters ago, we had set ourselves a target of crossing 15% EBITDA and moving to high teens. We are now firmly on that path while also improving our profit after

tax substantially. So, a big thanks to all our teams and partners for their unwavering support, efforts and resilience.

This consistent improvement in financial performance, along with the benefits of a strong balance sheet resulting from the merger, provides us with ample headroom to support investments to build our portfolio in new segments such as companion animal. While Saurav will delve deeper into the financials, let me briefly cover some business aspects.

Our formulations business, which accounts for about 75% of our sales, continued to trend very well, growing over last year by 18%, quarter-on-quarter. Now this was driven by a strong performance across all business geographies.

In Europe, the business grew with a healthy double-digit growth of 14% year-on-year during the quarter, maintaining sequential performance as well. This upswing in performance was led by a strong resurgence in the Spanish business and increased exports from Spain.

In emerging markets, a 27% year-on-year growth was supported by a strong growth across many key countries. We have established our front-end presence in Mexico, which is a large global market for animal health.

We launched Tulaject, which is a tulathromycin injection in Brazil, and we will eventually expand it to the rest of the Latin American market. Our operations in Turkey, both domestic and exports, continue to grow as we retain our position amongst the top 5 players in the market for ruminant animal. Our India formulations business has progressed well.

Quarter 2 is relatively a large quarter for the industry, and our business grew 6% over last year. We expect the impact of our field force expansion to kick in during the second half of the year. As we have said earlier, India remains a key market for us to develop. Coming to our API business, we are very pleased with the transformation efforts undertaken by the team, and our business clocked sales of INR830 million during the quarter, which represents a 7% growth vis-a-vis the same quarter last year.

And throughout this period, we have had successful customer audits as we position ourselves as a reliable high-quality partner for APIs. During this quarter, we also commercialized one new API partnership with the launch in the U.S., and we completed the U.S. FDA audit for our analytical lab, SeQuent Research Limited.

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

Saurav Bhala:

Thank you, Raja. Good morning, everyone, and thanks again for joining us today. It's a privilege to present key insights into our financial performance for quarter 2 and first half of financial year '26.

I'll start with financial highlights for quarter ended September 2025. Total revenue delivered is INR4,240 million, reflecting a 15% year-on-year growth. Formulation segment revenue delivered INR3,351 million, which is a growth of 18% on a year-on-year basis.

Our API segment revenue was INR830 million, which is a growth of 7% year-on-year basis. Gross margin, a healthy improvement of 270 basis points on a year-on-year basis, rising from 47% to 49.7%. Adjusted EBITDA reported is INR657 million, showing robust 47% year-on-year growth with a margin improvement of 330 basis points, rising from 12.1% to 15.5%.

Profit after tax delivered INR196 million for the quarter, nearly tripling from INR63 million in the same quarter last year, with PAT margins significantly improving. Coming to half year performance of financial year '25, '26, performance highlights as follows: Total revenue reported INR8,654 million, reflecting a strong 14% year-on-year growth.

Our Formulation segment revenue stood at INR6,734 million, up 15% on a year-on-year basis. API segment revenue, INR1,884 million, growing 11% year-on-year basis. Gross margin, a significant improvement by 230 basis points, rising from 46% to 48.3%. Adjusted EBITDA delivered INR1,259 million, a 35.4% year-on-year increase with the margin expanding by 220 basis points, increasing from 12.3% to 14.5%.

Profit after tax more than doubled to INR372 million, compared to INR154 million in the prior year and the margins improving from 2% to 4.3%, highlighting our operational strengths and focus on profitability.

Our balance sheet reflects stronger financial position, driven by focused reduction in leverage and enhanced turnover ratios. Moving forward, our strategic focus remains on sustaining profitability, further deleveraging our balance sheet, maximizing the free cash flow and improving return ratios as we progress.

Merger update already given by Raja, honourable, National Company Law Tribunal has allowed our petition and sanctioned the scheme on 18th November 2025, which was yesterday. With this approval, all the prerequisites for the merger are now complete and the focus will shift entirely to integration and optimizing the synergy benefits.

To summarize, our continuous focus on reshaping product portfolio, expanding geographical reach and focus on driving operational efficiencies has led to a sustained improvement in operating margins and a stronger and healthier balance sheet.

As we embark on new chapter as a merged entity, we are committed to further enhancing our performance and creating greater value for all the stakeholders going ahead. Thank you for your attention.

I will now hand over the call to Dr. Hari Babu for sharing insights into the Viyash Group performance. Thank you.

Hari Babu:

Thank you, Saurav and Rajaram. Good morning, everyone, and welcome to the call. So first of all, congratulations to SeQuent for great performance. And as Rajaram mentioned, actually, we received NCLT yesterday. Let me say thanks to everyone stakeholders for their support.

First, actually, thank you so much shareholders for great support. I think we got 99.9%. Then all our advisers and consultants, whoever worked with us last 12 months and most important, all our suppliers, customers and all institutions to get all invoices.

And most important, thank you so much for the entire group, including SeQuent team, Viyash team and Carlyle team for the great work actually for this merger. Now let me take you through Viyash performance. Of course, it's a record performance. It's highest forever for Viyash and also SeQuent, I think, last quarter.

So Q2 FY '27, Viyash, we did INR428 crores top line, which grows around 17.8% year-on-year. And EBITDA, of course, huge growth to INR123 crores, which grows about 96% year-on-year. And EBITDA margin improved substantially. It's improved by 11.5%. It's around 17.5% to 28.8% with actually strong PAT growth.

And of course, cost of Viyash, again, we grown actually 11% year-on-year revenue, which is equivalent to INR780 crores. And EBITDA has grown by 59% equal to INR192 crores and EBITDA margin also has improved substantially by 7.4% to 24.6%.

And coming to the merger, 2 companies together, combined revenue, we did around INR852 crores with a growth of 16% year-on-year and again, substantial growth of EBITDA, INR189 crores and margins also improved substantially to 22%. So, the few things contributed for this last quarter substantial improvement.

As you know, we have started actually with a strong research-based company, that's how we started last 3, 4 years, focus more on new products, focus on all cost improvements and business expansion to various markets.

One of the great things actually we have seen last 4 years, new product launches. We did almost 40-plus products developed in the last 3, 4 years, API and also around 30 products -- finished products in the U.S. We have a formulation site in U.S. and we have R&D in India for finished products.

So last 4 years, we developed almost 30 products, FDF, and we filed around 40 products API and 30 products Formulations. And also, we continuously launching the products. Last 12 months, we launched a lot of products, finished products; 6 products, finished products and API 8 products.

In last 12 months, API, we got 12, 13 products approved and FDF we got actually 4 products approved. And last year, we were the highest DMF filers in one of the quarters. This contributed actually reasonable for last quarter.

And coming to the second major focus area, CDMO business, even though we started a little late. Last 12, 18 months, we have been focusing a lot on CDMO. Unlike regular CDMO, we

focus in a little bit different way. One is, of course, the major thing, start with innovators, building the relationship for their life cycle management products.

We had actually already we have been supplying 2, 3 customers on those commercial and a few initiatives last 12 months actually moving to the commercial maybe next few quarters on that. And the second model, we partnered with many specialty generic companies to develop actually a little bit complex products, start partnering at R&D stage, co-development and manufacturing at our sites, that's contributing a lot actually in the last 2, 3 quarters.

And the third area contract manufacturing for specialty. It's not the regular contract manufacture for high-volume products, it's actually whatever products coming out of patent in near future after 2030.

We partner with many customers actually to do contract manufacturing, which includes, of course, optimizing the products. Almost 18, 20 products, actually, we were able to partner last 18 months in all these 3 areas for the life cycle management with innovators, our generic specialty partners and most important CMO. Out of 20 products whatever we partnered, 15 products of these actually today value -- market value of more than \$1 billion.

Of course, these are the coming launches in various phases, start from '28, '29, most of the products coming from 2030. And we expect actually substantial revenue generation and also bottom line from 2030 onwards on these things.

Of course, short term, whatever we do, a couple of validations, service income, we are able to sustain the revenue, so that's the major stream is going to come out in the next 3, 5 years. And most important thing, what we did last 2 years, of course, I explained last time also, product optimization and network optimization. This is very, very important for any business in the generic -- and also, we changed our strategy to move into the value-created products like earlier, we had a huge intermediate business, we try to convert into API, so which improves gross margin a lot.

And a couple of nonstrategic products wherever there was a volume products like anti-retroviral and a couple of formulation products where actually it's become commoditized. We divested those things and moved to the value-driven products. And in that exercise, we also actually rationalized 3 manufacturing sites, which were manufacturing intermediates, basically low-value products, that's where we divested.

And most important, last 12 months, couple of our finished products, we have manufacturing site in U.S.A. since a lot of competition is coming out from India. So, we strategized to move out to U.S. products wherever there is a large volume products, where we can improve gross margins, most of the products will move to India.

Of course, a couple of products started qualifying. We started shipping from India, a few products. All our key volume products actually is going to happen from India in the near future. Already, we started shipping one of the products. Second product also is going to be shipped very soon on that.

And the next most important thing in this since we acquired intermediate facilities, API, and formulation to become a fully integrated platform. What we did from beginning, we try to do both forward-forward integration and backward-backward integration.

What it mean by forward-forward integration? Wherever we are strong, either in intermediates or API, we try to forward integrate that's where we can take advantage of cost. So already, we did almost 5 products in that. And the second thing is backward-backward integrations. Wherever we are strong in the formulation, like a few products, we have strong market share in USA, but those are the reasonable volume products.

We try to do backward integrate into API, even actually at the intermediate level. So, in that exercise, already we did 7 products vertically integrated along moving into India, manufacturing low-cost base.

We also backward integrated into API. So, all our key products are going to be fully integrated. That makes a big difference in the gross margin. And all new products, whatever we do for finished products, so almost 50%, 60% of the fully vertically integrated, so that's where we can take advantage in future actually the cost.

These are the 4 areas actually, of course, the product mix also contributed. Most of our products, especially API, we are the leaders. Out of top 10 products, we have 6, 7 products are the market leaders. It's continuously growing. We're able to maintain our market share continuously these products. These are the 4 areas actually created actually good gross margin improvement in last quarter. Of course, it continuously is going to improve.

And of course, financial numbers, Saurav, explained. I'm not going to take those things. But still, actually, this company is going to be strongly focused on R&D base. With this integration, we can see actually a lot of synergies and opportunities.

Let me take you to a little bit synergies. As we explained last time, we identified a few areas. One of the important area is R&D. So, R&D has been relocated SeQuent R&D to Viyash corporate R&D and teams are working pretty closely collaboratively.

And in that process within short term, we are able to develop 4 new products for animal health, which are mostly actually companion animals, that's a key focus for us. 4 products have been developed already. And the 3 products, whatever actually we can improve gross margins.

These 3 are the volume drivers for us. Still, we are growing and we see substantial growth in the near future. 3 products have been completed, cost improvement on those things. And of course, a few other actions, whatever optimizing the site.

One of the sites, we have analytical centre located actually outside Hyderabad and Mumbai, that has been moved to our internal sites, which bring actually sustainability and the quality compliance, but also tells a lot on the cost improvement on that.

So, all the analytical testing, including stability, analytical validations have been moved to the site. And the manufacturing is also one of the key strengths for Viyash. We have a large number

of sites approved by FDA. All sites are approved by FDA, 8 sites; out of 8, 3 are intermediates and 5 are API.

So already last 2, 3 quarters, we qualified a couple of intermediates. SeQuent depending a lot on third party. Those are the key intermediates, which supply to API, supply to innovators. So, we got all those things to internal sites. Already 6 intermediates have been transferred to internal sites. We just validated. Of course, it takes some time for regulatory qualifications, but it's moving pretty well and all our clients are very happy with that initiative.

And another most important thing in manufacturing optimization, SeQuent actually struggling a little bit capacity, that's where Viyash is going to help a lot. We were able to build one new production line to support SeQuent large volume products. Already we commissioned within short time, 6 months. And already we validated and we started working with the various clients for regulatory filing.

So, as we mentioned earlier, whatever synergies we targeted next 12, 18 months. So, it's pretty well on track. And we initiated regulatory actions, but we are very confident whatever we projected synergies, it's going to happen in 12 to 18 months because that's the biggest thing, new production block for the SeQuent products.

And the sales, one of the other areas where we focused on synergies, SeQuent API business, most of the business comes from innovators. So, we started working with innovators to see the additional opportunity for Viyash. That's working -- started working. So, we have a few leads on that thing, but it's going pretty positive movement on that.

And other area, cross-selling, of course, where there is no overlap between SeQuent and Viyash, customers -- very few customers we sell both sides. That's huge opportunities we identified because most of these customers, especially in Europe, they sell both products, both animal health and human health, that's where we see the opportunities.

People integrated pretty well both business teams and started working together. And of course, all other functions, shared services or administrative functions, one of the important area we identified, of course, supply chain.

So, with these things, bringing most of the key starting materials to internal and also actually combining 2 companies' strength on the procurement. And definitely, we can see the good synergies on that perspective. With this, what I can say actually with the combined company is going to do pretty well.

And you can see our balance sheet, 2 areas we identified SeQuent growing areas, of course, pet care, companion animals, a lot of opportunities we see in the near future. And I think this is the right time we received the approval. So, this is the time we can actually grow a lot on actually the animal health business in addition to, and of course, whatever we are growing in human health.

And combined company is going to do fantastic, not only the short term, of course, always our focus is midterm and long term. Maybe the short term, there may be a few spikes, but we see actually the pretty sustainability on these both businesses.

With that, thank you. I think we'll allow for questions. Thank you so much for everyone.

- Abhishek Singhal:** Ryan, can we open for Q&A, please?
- Moderator:** Sure. We take the first question from the line of Vishal Manchanda from Systematix. Please go ahead.
- Vishal Manchanda:** Congratulations on a great set of numbers. If you could guide, when can we see the merger close? So, can we -- so Q4, can we see the combined numbers?
- Hari Babu:** Yes, we can see Q4 combined number. So, once we receive NCLT final order, I think we can start putting combined number. But I think Q3 itself, we can actually -- Q3, we can do combined.
- Vishal Manchanda:** And just some colour on this -- on your business, Viyash business, how much is API and how much is formulation?
- Hari Babu:** It's API intermediates together, we do around 65%, 70% API intermediate, around 35%, 40% actually formulation. Of course, this varies a little bit here and there, quarter-on-quarter, that's the reason I said 65% to 70% API intermediate.
- Vishal Manchanda:** And are you seeing stronger growth in formulations versus API? Like in the most recent quarter was formulation stronger, seeing stronger growth versus API?
- Hari Babu:** It's both. I can say, as I explained to you, there's 4 areas contributed, of course, formulation, we see good growth from last quarter. The reason is actually a few things. As I explained, a couple of products we moved out to India where actually we can see good gross margin.
- And of course, we also have good launches last quarter. So, both are growing. As I mentioned, actually, we are continuously focusing on the new product development launches actually, that's working pretty well. In addition to the most important growth driver on gross margins are cost optimization, product optimization, network optimization and these things.
- Vishal Manchanda:** So, like on the formulation front, you're primarily focused on the U.S. and that's primary....
- Hari Babu:** At this point, yes.
- Vishal Manchanda:** And how many launches you have done this year? How many launches you would have done this year in the U.S.?
- Hari Babu:** I think we did around 8 launches this year.
- Vishal Manchanda:** And just on the synergies between SeQuent and Viyash, so just wanted, on R&D, as you highlighted on the -- in your opening comments, is an important area. How much is SeQuent currently spending on R&D?

- Hari Babu:** SeQuent currently API R&D spending, I think around INR8 crores, INR10 crores.
- Rajaram Narayanan:** So, we spend about INR8 crores to INR10 crores.
- Hari Babu:** On R&D, pure R&D.
- Rajaram Narayanan:** Pure R&D, on API.
- Hari Babu:** And let me explain API R&D is slightly different than combined company or formulation because API R&D, whatever we do validation or exhibit quantities, most of the quantities we sell product commercially. So, the pure R&D spend is what we spend in R&D, chemicals and manpower. So SeQuent, they did around INR8 crores to INR10 crores.
- Vishal Manchanda:** And on top of that, you will have synergies from kind of -- from procurement also, supply chain as well?
- Hari Babu:** Yes, absolutely. Procurement, always when you go for combined procurement, there will be synergies. And also, you can see our balance sheet strength that will add definitely some improvement.
- But most important for us is R&D and manufacturing. Substantial synergies are going to come from these things because a lot of things can happen on the product optimization, that's one of the things SeQuent products we can improve. And of course, the new product addition and manufacturing. Yes, supply chain is there, but major things is going to come from R&D and manufacturing.
- Vishal Manchanda:** And just on the formulation business, animal health formulation business, that is showing good progress. So, can you kind of give some colour as to how we should look at this business next 1 or 2 years? Can we see double-digit growth on the formulation side?
- Rajaram Narayanan:** Yes. I think we've been maintaining that kind of growth now in the recent quarters. I think if you look at the industry, by and large, it is a fairly resilient industry in terms of its growth, right? I mean we see anywhere between 5% to 8% at a global level. And if you start looking at specific markets, specific segments, the growth is in double digits. So therefore -- and this is in spite of all kinds of geopolitical upheavals, etcetera.
- So, the underlying factors which are driving the industry, which is one around an increasing requirement for animal protein and dairy products and the second being for adoption of pets and spending more on companion animals.
- These 2 are tailwinds that we have in the industry that we operate, and that's really been one of the big reasons why we believe that our formulations business, which is now present in a good set of markets, should continue to grow. And add to that, the genericization of the industry. So, I think we are very well positioned. So, we should expect that this is a double-digit growth business for sure.

As we accelerate our new launches and as some of the new generics and we keep expanding in some markets and also begin to grow in companion animals, that should be incremental to this growth. So, we are fairly bullish on the formulations business.

Vishal Manchanda: We have capacities to kind of -- so any major capex that we need to put on the formulation side here?

Hari Babu: So, we are working on that, but definitely, we are going to do both inorganic as well as organic. So, midterm, definitely, we are going to add, especially on the companion animals, we are going to put on that.

Vishal Manchanda: On companion, you are primarily targeting the -- so you are targeting the nutritional aspect or you're targeting the medicinal aspect of the industry?

Rajaram Narayanan: So, there are 3 or 4 different components to it. We are clearly not targeting pet food, but therapeutic and nutritional, which is also supplements to therapeutics, that is something that we would be looking at.

And that's really our focus, which is pure therapeutics and supplements to therapeutics. And this is a fast-growing sort of segment, where we believe we have both the experience and more importantly, now with the R&D backbone that we have, we should be able to build that even better.

Hari Babu: And also, most of the products are similar to human health. So, whatever the pet care is going to happen, so most of the products are similar to human health, so that's our R&D can help a lot on that.

Vishal Manchanda: So Viyash platform can also be leveraged from both manufacturing and R&D perspective for animal health products?

Hari Babu: Yes. API, yes, formulation, of course, we need to have different facilities, but we can leverage on that.

Moderator: We take the next question from the line of Sahil Sanghvi from Monarch Network Capital.

Sahil Sanghvi: Congratulations on a very good set of numbers. My first question is, how do you see the business impacting because of the U.S. tariffs? What steps would we take to derisk the uncertainty over here.

Hari Babu: But at this point, our business, there is no impact on tariffs, and our dependency on U.S. is not much. So only 35% of the U.S. business, we do formulation. That's, of course, it's a good scenario since we have manufacturing at U.S.

At this point, we don't see any tariffs impact for entire business. So, API business or SeQuent business, actually, we don't do much on that perspective. Of course, there's no tariffs at this point for generics.

Even going forward, actually with our U.S. base and our strong network, we don't see any impact on our business. We see it may be positive. So really something happens, actually, we are going to benefit from our U.S. manufacturing network.

Sahil Sanghvi: And then for the SeQuent API sales, while they are higher Y-o-Y, they are also lower than the INR100 crores run rate you are targeting. So, anything to read over here or we are on track?

Hari Babu: We are on track since SeQuent do business with innovators actually. So sometimes actually they push to other quarters, but we are on pretty well track. But we can see good visibility to grow from actually fourth quarter onwards. So definitely, actually INR100 crores run rate is going to be maintained.

But next year, we can see good growth. Already, we started seeing some opportunities, but it's going to grow pretty well. I can say from fourth quarter onwards, you can see different SeQuent API business. Not fourth quarter, but definitely FY '27, we are going to grow substantially on that. That's how we have built a new production line also especially that we see a lot of opportunity growth next year.

Sahil Sanghvi: And how is the albendazole sales progressing?

Hari Babu: It's very good, albendazole is growing. I don't know whether you guys are aware one of the sites -- they shut down, that's where we see more opportunity. It's having more business. That's how we created a new production line also. It's going to grow. So that's one of the key products going to grow both top line and also margin improvement since we are bringing it too internal.

Sahil Sanghvi: Sir, Carlyle has invested almost 5 years. Is there any exit they are looking for or they have a longer plan to be staying invested?

Hari Babu: But I can't say Carlyle side, but what we see is real growth started from now this company. Even though Carlyle invested 4 years back, their investment got us in 5, 6 years. Whatever we have some preliminary internal discussions, they're not going to exit soon. So, it's going to continue because real growth started maybe last few quarters, but the next couple of years it's going to grow a lot. So, I don't see any exit plan in near future.

Sahil Sanghvi: And what could be the sustainable margins for both the entities going forward? I mean where do you stop now? Do we have a number to that? Or it's still a discovery as we keep exploring the synergies?

Hari Babu: I can say actually, we have good visibility now. Of course, we can't give any guidance to the market, but whatever we indicated earlier 2027. So, we indicated actually 20% EBITDA margin, but we see 20% is going to come soon, but this quarter actually 20-plus. But I'm pretty confident 20-plus is going to sustain. So, whatever we indicated 27%, actually it's going to happen from now.

Moderator: We take the next question from the line of Sachin Kasera from Svan Investment Managers. Please go ahead.

Sachin Kasera: [inaudible 0:39:40]

Moderator: Sachin, I'm sorry to interrupt you, but your audio is not clear.

Sachin Kasera: Is it better now?

Moderator: Yes.

Sachin Kasera: For the [inaudible 0:40:07] number that you reported on the combined. We have very much elaborated on how the next 4, 5 years are looking very, very good post the merger and now that we have seen the approvals. There was a previous question where you mentioned that we were looking at 20% margin and you said that that's not like the base. So, this quarter, we did like 22% margin. So, is there some one-off in base? Or we have been a little conservative in being 20% and with the synergies now really starting to flow in, probably we could see some upside to the FY '27 number that we discussed.

Hari Babu: It's a good question. Thank you for that. Of course, I can tell you straight away there's no one-off, okay? And when I say 20% plus actually, minimum is 20%, And a few things when I said actually last quarter revenue, both -- one is gross margin improvement because of optimization and other 2 things, CDMO contracts. CDMO, you know actually initial contracts from some service income, some validation income and also new launches, whatever we did launches did pretty well. There may be a few spike, but I don't see any major difference.

So, it's going to be sustained pretty well. Whatever actually we have growth opportunities, other areas. I don't see any of those things. It's not pure one-off. We don't see anything. Maybe a few things year-end service income may be, okay, can go up, or launch, maybe once we launch, actually, once you see the competition, there may be a little impact, but we don't see much on those things.

Sachin Kasera: Sure. Secondly, is it possible for you give us some sense because you mentioned that you see significant synergy, especially on manufacturing and on R&D. And plus we also -- so if you could give us some sense as to what is the type of benefits we could see there in some quantifiable numbers as a percentage of revenues or an absolute number, that would be very helpful because you did mention that the real benefit will come now that we approve the merger approval.

Hari Babu: So, a few things, these are the mostly comes in the midterm and long term. So, when I say R&D, there are 2 buckets. One is new products R&D. So, whatever we initiate developing products is going to come for launch.

A lot of pet care products also is coming out of patent from '28, '29 onwards. So, whatever we initiate development, new products, major revenue is going to come maybe '28, '29 onwards. The second thing, R&D where we can help actually is the product optimization. That's basically to improve the gross margin and also to improve market to some extent.

That's mostly, I can say, near term or midterm why because actually, you know that today regulatory scenario, even for animal health, any development, we do even cost optimization, it takes 12 to 18 months.

So, we have to do at lab and take transfer to the plant, validate and file. All these things, it takes maybe 12 to 18 months. That's going to happen, maybe R&D synergies we can see after 12 months, especially product optimization synergy will come maybe 12 months.

And the new products will start from -- majority will start from '28. So, these new products actually can bring SeQuent to the top player in animal health. I don't think any company, you will see many products in portfolio as we have in SeQuent, that's a big opportunity for us.

When it comes to manufacturing, so whatever I said, intermediates, we try to bring from outside to internal, that helps on 2 ways. One is actually the sustainability and also to give a lot of comfort to the clients since we do business with the innovators. There were some hiccups actually when you go for actually third-party players. That's where they had some concerns.

Now we can minimize those concerns or avoid completely. And also, of course, it adds a little cost improvement on that. And the major thing actually, whatever we do, big product cost optimization or capacity optimization, okay?

Today, we have -- our capacity utilization is around 65%, 70%. SeQuent, they have only 2 sites, one is small site, that's the site we are debating. So, we have opportunity to expand those products and also to improve that cost.

This synergy is going to come maybe again 12 to 18 months because we validated already product. But some customers take 2 years since innovators, they filed for entire global market. So, they wait for all countries' regulatory approvals. But major approvals, we can see from FY '27 second quarter onwards. So, you can see actually good synergies on this. Manufacturing in FY '27, whereas R&D, maybe you can see from '28 onwards, all those things. '27 definitely SeQuent API business is going to do pretty good on that because of these initiatives.

Sachin Kasera:

That's very encouraging. Sir, you mentioned about some capex plans. If you could quantify, how should we look at the combined capex for financial year '26 and '27 for both the entities? And secondly, you had also mentioned that we could also look at some inorganic opportunities. So, if you give a sense in terms of what is the size of those opportunities? And what is the like key things we look for and what are the financial metrics one should look in those type of acquisitions?

Hari Babu:

Capex perspective, API, okay? Last quarter, we spent around INR60 crores Viyash. So, since we have a strong balance sheet with internal accruals, we are able to support INR60 crores on that. API perspective, I don't see any major capex in the next 2 years, okay? For this, whatever we have current strategic business. Of course, when we do for new opportunities, when I said CDMO, we are trying to do some complex molecules, okay? That may require some capex.

But otherwise, we don't see any substantial capex for FY '26 and also first 2 quarters of FY '27. And formulation perspective, we are working on the strategy now. Definitely, we want to go

bigger and bigger in animal health, especially companion animals. We are looking at both inorganic as well as organic.

So, one of the thing is we don't have much manufacturing base in India. That's one of the area we are looking at. So that may start actually investing capex, sometime in FY '27. So, it can spill to FY '28.

Of course, it's all depending on inorganic if you get -- we are exploring if we get something inorganic, we may do faster. But otherwise, actually, we are going to do some capex second half of FY '27.

It's not much actually looking at the combined balance sheet next year. I don't see much capex even in FY '27 if you go for inorganic option. Maybe we'll do INR100 crores, INR150 crores capex, '27, '28. And of course, we are looking at various options on exploring inorganic small or bigger actually, which fits into our strategy.

Sachin Kasera: Which would mean that unless we do an inorganic, we should see a significant reduction in debt in the next 2 years, sir?

Hari Babu: Yes.

Sachin Kasera: And this inorganic, which areas are we looking for, if you could? And what are the synergies and which are the areas where you think there is a gap in terms of the capability or in terms of synergy that you would like to target? And are they predominantly in any geography that we are looking at?

Hari Babu: SeQuent business have everything. So, we do API, we do business with API for innovators. We do formulation manufacturing. We distribute our own. We distribute even innovators also a few countries actually.

So, we have manufacturing in Europe, Turkey and Brazil. We started shipping from Turkey to Europe since it's a Europe approved site. So, we are working on those geographies, especially U.S. and some LatAm actually. So, we are looking at various things. If we get some front-end expansion in a few of the European countries, yes, we are looking at. And we are looking at actually the few products where we can actually in-license and promote those products we are looking.

And of course, the manufacturing base, mostly it will come to India because that's most important because animal health also, unlike human health, genericization is very slow. And we are seeing only last 2 years actually it's moving from innovative to generic once patent expire.

And we see good opportunity in the next 3 to 5 years. That's where we want to build capability from India low-cost base to take that advantage. So, all areas, it's not specific to one. We are completely relook at actually how can we become global animal health player, whatever are the small, small gaps actually. So, we want to fill those things.

If you ask me today, we don't have right now anything, but we are going to work very closely on that.

Sachin Kasera: Just one last thing on the ESOP cost. So, this first half also as per the comment P&L, earlier we had INR23 crores charge. So, is this going to be a recurring thing? Or is it something specific for 1 or 2 years, maybe I can get some clarity on.

Hari Babu: No, it's not INR23 crores. Is it INR23 crores? Sorry, just 1 minute.

Saurav Bhala: So current year ESOP is going to go down -- so ESOP last year was INR32 million and some new ESOPs were INR32 million -- sorry INR32 crores.

Sachin Kasera: Last year, if I see the FY '25 combined P&L, which is uploaded, that is showing as INR40.6 crores for last year and INR23 crores for the first half, Slide number 7.

Saurav Bhala: Correct. That is combined together. I was talking about SeQuent, which was INR32 crores. This year, it would be slightly more because some more ESOP has issued for SeQuent. So, this year, the expected number would be in the same range, INR34 crores, INR35 crores roughly. Post merger, there would be a new ESOP scheme, which NRC has to approve for Viyash team, which is being worked out. And once the numbers are finalized, we can share the details probably in the next call or sometime when it is finalized.

Sachin Kasera: So, while the numbers may vary, we can assume this ESOP as a recurring thing at least for the next 2, 3 years, that will continue to remain part of the P&L.

Hari Babu: Yes, definitely, next 1, 2 years, it's going to be recurring. But to what extent, still we are working on the scheme.

Moderator: We take the next question from the line of Harshit Dhoot from Dymon Asia Capital.

Harshit Dhoot: Congratulations on the strong set of numbers. Hari Babu sir, on the Viyash, as you described 3 growth engines, CDMO, generics and the CMO part, the kind of the growth engines that you are envisaging, is it fair to assume that from next 3 to 4 years' perspective, the Viyash can grow more than 20% CAGR rate?

Hari Babu: 3 years, yes. So, as I explained earlier also, the initial last year focus mostly on improving gross margins and profitability. That's how you can see actually more growth and profitability than actually the top line. Of course, whatever we initiated new products are going to come actually in the near future continuously. But definitely, 3 years, we can take comfortably 20% CAGR growth top line.

Harshit Dhoot: Yes. As you said, there was no one-off during this quarter's performance. So is it fair to assume that from now onwards, the quarterly run rate in terms of EBITDA will be more than INR115 crores. Is it a fair assumption, sir? Or you find some lumpiness there?

Hari Babu: You're saying combined, right?

Harshit Dhoot: No, in Viyash, sir. In Viyash.

- Hari Babu:** Only Viyash, we are saying INR150 plus.
- Rajaram Narayanan:** You're saying combined SeQuent, like combined entity EBITDA, Harshit? What is exactly you're saying.
- Harshit Dhoot:** No, no. In Viyash, during this quarter, we reported around INR117 crores, INR118 crores EBITDA. So is it fair to assume that this is the quarterly level sustainable run rate for the Viyash.
- Hari Babu:** We can assume reasonably, as I said, actually since we had good CDMO revenue and also new launches. But definitely, we can assume close to that, but we can continuously grow on that. Absolutely. We can't give the number, but definitely, we are pretty confident to assume that.
- Harshit Dhoot:** So basically, trend will improve only or may be sustainable at this level in terms of the quarterly numbers, if you can understand?
- Hari Babu:** It's -- as I mentioned, actually, there may be small spikes, but definitely, we are going to grow, okay, whatever it is. Of course, combined number, as I mentioned, actually, we are going to do -- now onwards 20% plus actually minimum we are going to do that.
- So let me clarify, guys. Let me clarify. It's not one time where it's completely differentiate. There's a small portion actually the service income or the new product launches, but it's not going to change substantially. So, it's going to improve actually maybe quarters, maybe a small thing. But definitely, still we are very confident actually to achieve those numbers.
- Harshit Dhoot:** And in SeQuent also, we are continuously improving the gross margins. So, going forward, is it fair to assume that the gross margins are sustainable above 50% or close to 50% level? Is it a fair assumption?
- Hari Babu:** Absolutely, absolutely. You can see good growth in near future, absolutely.
- Moderator:** We take the next question from the line of Sucrit D Patil from Eyesight Fintrade Private Limited.
- Sucrit Patil:** I have 2 forward-looking questions. First is looking beyond this quarter's numbers. I want to understand the bigger picture that the company has in mind. SeQuent is India's largest pure-play animal health company and the industry is changing with the new regulations and global demand shifting. And there is some innovation in veterinary medicines also.
- Over the next 1 to 2 years, what is the one big change that you are driving that will make SeQuent stronger and more trusted across the globe? Is it to expanding your product pipeline or building deeper customer relationships, something that makes it hard for your competitors to copy your model, that's my first question. I'll ask my second question after this.
- Hari Babu:** Thank you for that question. If I put it actually whatever we initiated last 1 year, so I can see 3 areas. Of course, SeQuent today is a differentiated company. I don't see any other company, which is closely to SeQuent capabilities on whether it is API portfolio or actually finished product distribution or actually the markets where we offer.

So next 2 years, actually -- and also, as you mentioned, actually market scenario also has changed. So, animal health also is moving towards the more regulatory scenario like human health, that's where we have bigger advantage.

Our API plant is pure play animal health approved by FDA and all our facilities wherever we operate, actually facilities is pretty well maintained on the compliance for those markets. So next 2 years, actually, we want to grow definitely the CDMO, whatever actually it lagged a little bit last 4, 5 years with innovators, that's going to grow.

Second is the big thing in the formulation business, especially in the companion animals, whatever we mentioned that actually the pet care, whether it is front end or manufacturing capability, we are going to improve substantially. That's going to be the differentiating factor for entire SeQuent, I can say. Rajaram, you can add if you want to add.

Rajaram Narayanan:

No, I think absolutely. I think for us, what you should expect in the next 2 years is certainly -- we'll over-index on companion animals, both in terms of our own growth as well as any kind of inorganic.

I think that after the -- because of the merger, we will be seen to be a far more sort of R&D and science-driven animal health company. And I think that will be a big differentiator for us. In many markets, which are less regulated, the regulations are getting tighter on animal health products. And I think that -- for that, we are very well positioned compared to some of the other players who may not have the kind of quality and regulatory capability that we have right now. It will be a big plus for us.

Hari Babu:

And most important with our combined balance sheet can leverage actually to expand all these areas. So, you can see the free cash flow we are generating quarter-on-quarter. Of course, we said '27, it's going to be debt free. That's going to happen. So, unless we do some mergers. So, balance sheet is going to help a lot on actually expanding these areas.

Sucrit Patil:

My second question is to Mr. Saurav Bhala. I believe he's also on the call today.

Saurav Bhala:

Yes.

Sucrit Patil:

Again, a forward-looking question because you have given good guidance on the margins [inaudible 0:58:49]. My specific question is to margins and cost planning only. Margins in pharma are always under pressure when costs rise, whether it is through raw materials, compliant, R&D or any other specific things.

Just want to understand how you think about protecting the profits without slowing down growth. Is there any smart way that you have put into place, maybe it's pricing discipline or operational efficiencies?

How do you balance these levers in practice so that the company can stay strong, even when sometimes things get out of control or you may plan something, but it may go in some different direction. Yes. I want to understand on that.

- Saurav Bhala:** Yes, that's a good question. And in fact, we have been addressing them for last many, many quarters. So, the work started about 2 years back, where we kind of reject our portfolio by seeing the product mix by looking at each of the product country-wise very carefully, where our efficiency is there and where it needs to be improved.
- And a very detailed action was taken over many quarters, the result of which is already visible, and that has led us to quarter-on-quarter improvement in the gross margins, irrespective of all the geopolitical turmoil going around.
- So, we are very confident this is the base which has been established. It is not a once-off thing. It is not dependent on external factors, and we will maintain and kind of grow over these margins by improving the product mix. So, R&D is also -- there is a lot of investment going on in R&D globally for us. That is helping us to improve our costing profile, addition of new products. So, our product mix is going to improve going ahead also. So, this margin, I think, is a base which has been created and which we are very hopeful to improve going ahead. And Dr. Hari, may want to add.
- Hari Babu:** So, I'll add a little bit actually, if you see that, of course, Viyash is constantly improving gross margins. SeQuent also, you can see good improvement near future API and formulation also, if you see where we operate, where we compete.
- We compete most of the companies with innovators in Europe, all those things. And we have -- actually our cost base is low. Wherever we do manufacturing, actually formulation activities, cost is not very highly competitive.
- Of course, we are continuously working on that whatever API is fully set up now, even formulation also bringing more and more internal wherever it's possible. So that's a continuous activity to improve the gross margins.
- Moderator:** Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to the management for their closing comments.
- Rajaram Narayanan:** So, thank you very much for joining this call in the morning. I hope you've had an idea about how the performance has evolved over the last couple of quarters, but also importantly, the direction going ahead. We'd be happy to take on any other queries that you have, and you can write to us directly for that, yes. So, thank you very much, and have a good day.
- Hari Babu:** Thank you. Thank you very much.
- Saurav Bhala:** Thank you all.
- 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.