



“Sequent Scientific Limited
Q3 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Sequent Scientific Limited Q3 FY20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Singhal. Thank you and over to you, Sir!

Abhishek Singhal: Very good afternoon and thank you for joining us today for Sequent Scientific’ Earnings Conference Call for the Third Quarter ended Financial Year 2020. Today we have with us Manish - Sequent’s Managing Director; Sharat - Joint Managing Director and Tushar – CFO; to share the highlights of the business and financials of the quarter.

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

Manish Gupta: Thank you, Abhishek. Good afternoon everyone and thanks for joining us on this call. As Abhishek mentioned I am joined by our Joint Managing Director, Sharat and our CFO, Tushar on this call. I will start with the highlights for the quarter and the nine-month period as well as give you a brief overview on the developments, post which we will take the questions from all of you.

Our third quarter performance is a good reflection of our journey towards growth and profitability, the quarter turned in strong performances across all financial matrices be it revenue, EBITDA, PAT, ROCEs as well as free cash flows.

The revenue for the quarter stood at Rs. 317 Crores as compared to Rs. 271 Crores that we did in the corresponding quarter last year and exhibits constant currency growth of about 21% and reported growth of 17%.

Interestingly or importantly the growth was led by formulations business which outpaced API business during the quarter. On a year-to-year basis our revenue stood at Rs. 879 Crores reflecting a growth of little lower 19% on constant currency basis.

We reported an EBITDA of Rs.48.4 Crores for the quarter reflecting a growth of 36.5% coupled with a margin expansion of 220 basis points showcasing a significant operating leverage in the business.

On a year-to-date basis the EBITDA stood at Rs. 125 Crores with the margin expansion of 200 basis points, Net profit after tax stood at Rs. 20 Crores reflecting a 56% growth over the corresponding period of previous year and on a YTD, basis stood at Rs. 53 Crores reflecting a growth of little over 68% in the period.

Animal health industry is characterized by strong cash flows once you hit an inflection point. Our recent performance is reflective of the same and we have delivered stronger operating cash flows of almost Rs.46.5Crores in the quarter.

Formulations, as I mentioned a bit earlier, with a 22.5% growth was the key driver for this quarter with our performance in all key markets exhibiting good growth. Turkey grew almost 150% on a constant currency basis for the quarter with regulatory headwinds completely behind us.

Europe is back on growth track after a subdued first half, growing at 7.4% on constant currency basis while Latin America grew at 28.2%. We expect the momentum in Europe to continue for the rest of the year on the back of new launches as also easing of supply chain challenges which we face with our key supplier in the first half. In Latin America we had strong growth in both Brazil and Mexico which are our key markets in the region. Even emerging markets reported a strong double-digit growth excluding the India formulation business which continues to see economic headwinds.

Our new R&D center is now functional at Ambarnath in Mumbai, co-located with our manufacturing facility the state-of-art R&D facility spread over 3200 square feet has capabilities to develop 8 dosage forms and can handle both R&D and pilot batch manufacturing with special focus on injectables. We have also established capabilities for ecotoxicity and bioequivalence studies for animal health in India and remain on track for first injectable filing in the US by the end of the current quarter.

On the API side the growth momentum continues with a growth of 19% on constant currency basis and 30.1% on an YTD basis. Our fixed asset turnover for the API business is now at 2.3 times driven by our focus on regulated markets or regulated customers as also high value products. Top 10 customers now constitute 56% of our API business for the nine-month period.

As mentioned earlier the quality of business is also reflected in strong cash flows from operations and we generated over Rs. 46 Crores in the quarter as we delivered both strong growth and simultaneously delivered a 15-day reduction in our working capital cycle. This has resulted in our net debt reducing to Rs. 234 Crores at the end of the period, a drop of Rs. 40 Crores in last 3 months.

On the balance sheet front the metrics continue to improve with return on capital employed now at 14.1% compared to low single digit about three years back and our net debt to EBITDA dropping to 1.4 times. Actually, adjusted for liquid debt investments in our balance sheet the net debt to EBITDA is as low as 0.55.

We are pleased with the performance of this quarter and the results are continued reflection of the strategy that was formulated a couple of years back, backed by relentless execution. We are on track to meet our full year aspirations of high teen revenue growth and 200 bps EBITDA margin expansion.

With these few words I would now like to open the floor for questions.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Alankar Garude from Macquarie. Please go ahead.

Alankar Garude: My first question is on the formulations business, we delivered a very strong growth in this quarter 22% but seems like it is largely being driven by the turkey business so can you just comment on whether this kind of a growth rate is sustainable and the second part to this question would be can you throw some light on the slowdown on the domestic business as well that would be helpful.

Manish Gupta: Thanks, Alankar. See we have been guiding a mid teens to high teens growth on our formulations business and you should see our performance in formulations business on a nine-month basis in that light, so we have delivered about a 15% revenue growth. You would be cognizant of the slowdown that we faced in Europe in the first half which is now back on track.

So collectively we stay confident of delivering mid to high teen's formulations revenue growth in years to come. Certainly, you will see moderation in Turkey and acceleration in Europe going forward.

Alankar Garude: And Sir on the India business any comments on the slowdown what exactly are you seeing in the market and are there any signs of a turnaround.

Manish Gupta: It is a difficult question because obviously as an economy we have not seen such bad days for many decades now, having said that in the context of our overall business of course India is very, very small less than 5% of our revenue. Now coming to specifics, we have kind of done a negative double-digit performance in India in the last nine months. However, we are seeing greens sprouts, poultry business is already back on growth track and in our cattle business, you would have noticed that there have been recent milk price hikes now that is a very important element for the farmers liquidity and we do foresee that the cattle business will also be back if not on positive track but certainly on status co going forward.

Alankar Garude: Secondly you have been guiding for a high teen's topline growth and 150 to 200 basis points EBITDA margin expansion over the medium-term and I think it has been almost 7, 8 quarters now that we have delivered that. So, if I just look ahead and think about maybe the next three to five years would it be possible for you to replicate this kind of a trajectory in both the topline as well as the margins.

Manish Gupta: So clearly the business plan that we are working with certainly indicates in that direction. In the first two years we have been always guiding that API will be driving our growth at a global level and formulations will be catching up in the last three years of our business plan, but all in all basis we are fairly well placed to deliver the numbers that you have been talking of.

Alankar Garude: And final question from my side. Now if I just look at the net debt right now Rs. 234 Crores and if we adjust for the investments in the group companies and the net debt is almost 0 so with the business also throwing in significant cash what would be our plan next, whether we look out for any major acquisition or a series of acquisitions or maybe try and think about increasing the shareholder payout.

Manish Gupta: I think it is a very decent good problem that we are facing with, one year back we had never anticipated this kind of problem that the business will be generating this kind of cash obviously while it was in the plan it was yet to be reflected in the number. So, it is a good problem to have. Certainly, inorganic is a key element of our strategy and we will be continuing to look at such opportunities, having said that we will also be working on a revised dividend policy because clearly there is a need for enhanced ability to distribute dividends and that will be certainly looked at.

Alankar Garude: Thanks, and all the best.

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

- Vishal Manchanda:** Congratulations on a very strong performance. Sir the EBITDA margins this quarter is around 15.5% so can we take these margins at base margins going forward. So, kind of will the company build up on these margins or will there be volatility so margins going down on a quarterly basis seasonal effect.
- Manish Gupta:** Vishal there is a bit of seasonality in the business so you will see between 100 to 150 bps margin fluctuation across quarters, but that is all within a narrow range, if you look at a nine month basis it is now a little over 14%, I mean, rather than giving a quarter-on-quarter guidance I can tell you on a full year basis we are certainly working towards delivering at least a 150 to 200 bps margin improvement year-on-year at least in the next two to three years.
- Vishal Manchanda:** So, you mean on a every year 150 to 200 bps improvement.
- Manish Gupta:** That is what we have been guiding to and this is something which we also have been delivering for last 11 quarters consistently.
- Vishal Manchanda:** Sir second in Latin America and emerging market where we believe the margins are lower than the rest of the business so are we still in the single digit EBITDA range there or have we progressed to the double-digit range.
- Manish Gupta:** It is very difficult to give segmental margins because there is a lot of corporate cost and R&D cost and where do you allocate that is always a debatable point, other than the only broad guidance which we have been always mentioning is that turkey is our out performer in terms of margins in formulation side rest other businesses to some extent are still subscale. So, we do believe marginal improvement in all geographies other than turkey in a substantial way as a new formulation pipeline kicks in.
- Vishal Manchanda:** Sir, but is it fair to say Latin America and emerging markets would be kind of at the lower end in terms of the EBITDA contribution compared to other geography.
- Manish Gupta:** It will not be a fair statement. Both these markets are significantly profitable once we meet the inflection point is all I would say I would not like to get into market-by-market profitability it will be something not appropriate because we do not share that information.
- Vishal Manchanda:** Sir just one more question related to the API business, basically there has been continuous growth in the API business for you. So, going forward can we continue to build this growth without capacity expansion say in the next one year and we can see we can be still seeing growth on this business without capacity expansion.
- Manish Gupta:** Yes, so I will give you holistic response and then ask Sharat to give a little more detailed response from really the right technical perspective, but at a business level we are certainly well equipped to deliver FY2022 business plan that we have on API business without any expansion. However thereafter we will need investments to deliver FY23 and FY24 plans. Having said that I think you have to plan investments ahead of the curve in business so Sharat if you can respond to this.
- Sharat Narasapur:** Yes, so while we are covered in terms of capacity for FY2022, in next three years we will be adding capacity significantly, about 33% up from what it is at Vizag. Basically, because most of the growth is going to come

from Vizag and today we have a capacity of 225KL there so another 125KL will be added, for which we have already started the action.

Vishal Manchanda: So, you have started investing in those capacities now.

Sharat Narasapur: Yes, we are just starting.

Vishal Manchanda: And just one question related to the injectable filing that was recently done in Europe. So, what is the Europe sales for that injectable I know you have kind of given that number earlier so I was just trying to recall that number.

Manish Gupta: So, it is about 25% of the global sale of that product are from Europe. Just to give a little more update on that while we started with EU filing for that given the Brexit scenario we have also completed a separate UK filing for that product with the US and Canada filing imminent for this quarter.

Vishal Manchanda: And within Europe would UK be a larger market is that right.

Manish Gupta: See typically UK is in the big four of Europe so to that extent it is an important market and fortunately or unfortunately now you need to file separately given the Brexit.

Vishal Manchanda: Sir could you give any sense on what competition can we see in this product once it is open for generics.

Manish Gupta: It is \$350 million product, very few products in animal health are of this scale so we do foresee competition, clearly it will never be in line with what we foresee or what happens in the human pharma side but we do expect between 2 to 4 competitors for this product, another thing to be noted in animal health is generally people are not there on day one of patent expiry. So again, the numbers which I am referring to may not happen on day one.

Vishal Manchanda: So, they will gradually build up.

Manish Gupta: Yes, that will gradually build up.

Vishal Manchanda: Patent expiry happens in...

Manish Gupta: Yes, so in Europe it is December 2020 and in US it is couple of months after that, the other thing which Vishal of course you are very familiar is that the price erosion in animal care health is also very limited as compared to human health.

Vishal Manchanda: Sir but are the market shares also kind of so in human health we see companies taking larger market share then it is clear. So, would that been a case in case of animal health or we would see lower market shares and how so what would be the time duration of kind of thing was not precious.

Manish Gupta: Yes, so clearly you start from 0 when you launch and you have to build up your market share so it is a slow and steady progress I think typically model wise people look at between 5% and 25% over three years.

Vishal Manchanda: So, each player can do between 5% and 25% depending on his distribution strength.

- Manish Gupta:** Also depending on the number of competitors.
- Vishal Manchanda:** Thanks very much.
- Moderator:** Thank you. The next question is from the line of Sachin Kasera from Svan Investment. Please go ahead.
- Sachin Kasera:** Congrats for a good set of numbers. Two, three questions, one on the API side I am a little confused to the previous query you mentioned that in FY2022 we do not need to do any major Capex and then after that for 22 to 24 we need to do some investments and so Tushar subsequently mentioned that we are already in the process of increasing capacity from 225 to 350. So are we listing that the 225 to 350 will not entail any major Capex or this 225 to 350 is for the plan from 22 to 24.
- Manish Gupta:** Sorry I think because there was a small mistake which I had made in mentioning the year so we are well covered for FY2021 from our current capacity of 225 kiloliters. The new Capex and expansion plan which Sharat referred to is for FY2022 to FY2024 requirements, that will entail increasing this 225 KL to 350 KL reactor capacity and that is what we have just about initiated.
- Sachin Kasera:** And currently from what is the type of utilization then we would be running at this 225 KL would be like 65%, 70%, 80% major would be in that curve as of now.
- Manish Gupta:** Yes, I think 65% to 70% is what would be a fair indication.
- Sachin Kasera:** What is the peak that is achievable is like 85% or we can go as high as 90, 95 in this business.
- Manish Gupta:** See Sachin this is a very tough question in the industry because if you do not have any changeover of these are multipurpose plants and if you do not have any changeover then even 100% is possible like we do in our Mahad facility for Albendazole, but given the scenario in Vizag wherein we have more products and different sizes and different requirements for different customers we think somewhere between 80% to 90% would be fair peak capacity estimation.
- Sachin Kasera:** Secondly Sir while for the nine months we were reported a 30% growth in API for the current quarter the growth is around 17%, 18% I understand the base is now starting to catch up. So, while coming to show strong growth should we now moderate the growth expectation from API from the 30, 40 that you were showing few quarters to more of 15%, 20% type a band is that a fair way to look at in next four to six quarters.
- Manish Gupta:** Clearly as we have been always guiding to high 20s, upwards of 20% growth on our API side of business on a long-term basis and that is what we are confident of delivering but clearly yes, I think the current rate of 30% plus will moderate going forward.
- Sachin Kasera:** And Sir this turkey for the nine months itself we have seen a 66% growth and you said that is one of the most profitable markets for us and while we have seen improvements little bit in terms of the gross margins but going by the type of growth we have seen in Turkey I was probably hoping that there could be some more expansion on gross margin so are there some markets where we have foresee in some impact on gross margins which has negated part of the benefit of higher revenue say from turkey.

- Manish Gupta:** Yes, we have been guiding this also earlier that clearly there were pressures in Europe especially because we will not be getting certain injectable supplies from one of our core suppliers who had certain site related failures in its manufacturing. Now clearly again injectables on Europe is also higher margin compared to the other products that they sell. So that clearly reflect so all in all while we have improved our margins. If Europe would have performed better the margin improvement would have been even better.
- Sachin Kasera:** Sir one question on the overall margins, for the nine months we have delivered 200 basis points margin expansion and, in the presentation, you are mentioning that the for the full year we are looking at 200 basis plus so are we hinting that looking at Q4 being much stronger quarter for that company.
- Manish Gupta:** See we can broadly maintain that it is around in that region only I do not foresee I mean it is very difficult to predict the future.
- Sachin Kasera:** That I understand Sir, just that because our delivery has been so good that investor expectation is always higher from this benefit, yes, so earlier we were saying 150 to 200 basis points now we are narrowing more towards 200 basis points is all we are saying. And Sir this Europe then per hour we looking next time is now we can start looking at it, but you mentioned that emerging market Latin, Europe are slowly getting back on track so after some difficult four, six quarters are we looking these markets doing much better in FY2021.
- Manish Gupta:** Certainly yes, it is being what we have delivered in Q3 in Europe should be the kind of growth rate we foresee going forward. So, Europe can never be a very high growth market you have to understand it is a very stable and matured market even 7.5%, 8% is more than poised the growth rate of that market and that is what we aspire in a branded generic market.
- Sachin Kasera:** And just one lastly Sir the slide #11 where you have given some color on the type of filings we have in Europe, US and all. So, what is the type of timeline launch we are seeing for this product say 2021 and 2022 that would really helpful.
- Manish Gupta:** Yes, see Europe we are already launching our own filing as there we already have all the regulatory framework capabilities and European launches are ongoing. Our first US launch will be in FY2022 and all the filings which you are referring which you are seeing those 11 products for US will fructify between FY2022 to FY2024 and similarly all the EU products which you are seeing in that slide will fructify between now and FY2024.
- Sachin Kasera:** Europe you have 26 and US is 11 correct Sir.
- Manish Gupta:** Yes.
- Sachin Kasera:** When does the API for US that Sir does that now start in 2022 or that can start in 2021.
- Manish Gupta:** No API for US already started in FY2019, FY2020 in fact we had some dips because of that one single company who had issues in their manufacturing plant who are also our supplier for Europe for injectables so this business will continue to grow going forward but we are already in US.
- Sachin Kasera:** Sir just last question regarding the balance sheet you mentioned that we had a good cash flow and we repaid almost 45 Crores of debt but when we see the finance cost that you reported for this quarter is higher by almost

1.8 Crores versus the September quarter so if you could just help us understand little bit on that front that will be helpful?

Tushar Mistry: I mean that it is the net debt that has come down it is not the gross debt; the gross debt remains constant with the cash that has increased. On the interest cost part there is one element, which I have been referring to that the translation impact of borrower loan in Turkey we have about \$3 million loan in Turkey so there that has an impact of about 1 Crores in the current quarter. So, on a constant basis our current interest cost could be in the region of around 8.5 Crores and it continues to decrease as we continue to replace our bankers from the more expensive one to the better ones as our performance improves.

Sachin Kasera: And any specific reason why we have kept a gross debt high and kept the net debt low any reason.

Manish Gupta: No so these lines are obviously old lines and we are paying as per the payment terms also obviously there are inorganic expansion plan so we always would like to sit on some level of cash, having said that going forward we will be looking at the utilization of the cash. Sachin as it is a more recent good problem that we discovered in our business.

Sachin Kasera: Yes. Thank you so much Sir all the best.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Investment Managers. Please go ahead.

Manjeet Buaria: This one was for Tushar, if you could just remind us about the accounting and the cash tax rate for the year.

Tushar Mistry: Accounting and the tax.

Manjeet Buaria: And the cash tax rate the accounting tax rate and the cash tax rate.

Tushar Mistry: The cash tax of tax part that we have had in the current year up to nine months is about 10 Crores that we have spend, on tax rates on an overall basis for our accounting we should be about 15% of our PBT.

Manjeet Buaria: So full year FY2020 would be 15% on your accounting PBT.

Tushar Mistry: Yes.

Manjeet Buaria: And full year cash tax would be a bit higher.

Tushar Mistry: It would be more or less, no it will be lower.

Manjeet Buaria: And for FY2021 if you could just help us.

Tushar Mistry: It will be similar space.

Manjeet Buaria: And the investments which we are referred to earlier on the call do you have any capex guidance for FY2021 or are it too early for that.

- Tushar Mistry:** No, so we do have a fair bit of plan Capex it has been in the region of \$7 to \$8 million collective over all the sites which includes expansion at Vizag and also the significant expansion that we are undertaking at our injectable facility in Germany.
- Manjeet Buaria:** So, \$7 to \$8 million.
- Tushar Mistry:** Yes.
- Manjeet Buaria:** And final question Manish, was the market size for our injectable which is to be launch or to sorry to be filed in the Q4 I think earlier we use to mention market size of 100 million plus then 300 and this time it is 350 so just wanted to check have I got it right I am referring to the older presentations or was it different.
- Manish Gupta:** Yes, so the 100 million which we use to refer to was the EU market of that product which is what we had visibility around at that point of time. Now this product is obviously part of it is say annual report and so both 300 and 350 are the numbers coming out of their annual report in the recent past. So, as they keep updating...
- Manjeet Buaria:** Their global market ratio.
- Manish Gupta:** Sorry their global market ratio. Yes.
- Manjeet Buaria:** Okay so the difference is between Europe and global market so it is basically between our Europe...
- Manish Gupta:** And 300 and 350 the differences in the year of the information.
- Manjeet Buaria:** Yes, that is okay actually that is close by I was more with this thing between 100 and 300 that kind of jump there, okay I will join back the queue. Thank you.
- Moderator:** Thank you. The next question is from Anupam Agrawal from Lucky Investment Managers. Please go ahead.
- Anupam Agrawal:** Congratulations on a great set of numbers. my question was just if you can throw some light on how the France and Italy has been panning out for us will be talking about how they will be dragging our cost for sometime if you can just throw some light there please.
- Manish Gupta:** Thanks Anupam, we still continue to make losses we lost about 2 Crores in France and Italy during the quarter having said that we are clearly seeing light at the end of the tunnel in Italy and we hope to be in black by end of this quarter or subsequent quarter for sure because product supplies have started there and that is what matters there. France is still a long journey. We are hoping to be at a breakeven stage by end of FY2021 and that of course will be significantly also the monetization of the EU filing of that injectable will have a significant role in that turnaround.
- Anupam Agrawal:** So what sort of topline are we doing on a monthly on a quarterly basis for both these markets if you can share that please?
- Manish Gupta:** It is very, very small it is 10s to 1000s of Euros it is certainly lesser than the expense we incur every month in that trajectory.

- Moderator:** The next question is from the line of Parth Garg from Mittal Analytics. Please go ahead.
- Parth Garg:** Actually, I have only one question we see that there are many articles about selling the company at around 2500 Crores so while the company is doing so well and we are also very ambitious about going forward so why is that.
- Manish Gupta:** Yes, I think this query is best directed to the promoters of the company but having said that the company will keep all its stakeholders updated as and when there is something to be shared so very little we can comment on at this point of time.
- Parth Garg:** So that the article which was there so it is a, are we going to do that in a near about or there is long-term in that.
- Manish Gupta:** See that is a prerogative of the shareholders of promoters of the company. The business is what we run and what we are guiding is we are obviously very committed to what we are working here and clearly it is both strategically and operationally on the right track. I would not be able to comment anything on what is getting reported in that news came from.
- Parth Garg:** That is, it from my side.
- Moderator:** Thank you. The next question is from the line of Tushar Bohra from MK Ventures. Please go ahead.
- Tushar Bohra:** Thanks for the opportunity. It is Tushar Bohra I think there is some confusion with the, anyways, congratulations Sir and excellent set of numbers, so first question is we have maintained over the last few quarters consistently that we are looking at a mid to high teens growth on revenue and say about a 200 bps margin improvement which sounds as a calibrated policy, is it fair to assume that if we push the lever on any one of these two we could do a lot higher well maybe compromising the other.
- Manish Gupta:** Not really see we are in a branded generic business wherein fundamentally growth is calibrated in the sense that you can only grow as much without disturbing the market place. Anything faster will certainly come back after a period so if you try to push too hard you will end up collecting the material after a couple of months or weeks and that to has expired good so we are very calibrated as far as our formulation's growth is concerned in that context. Now the other thing is our API business again partly it gets calibrated by design simply because of the regulated framework that we operate in and the entire process is so controlled by the regulator that even if you want to push it fast and that is one area we can actually push it harder but it gets moderated by the regulation that our customers deal with and they are also finally contributing in branded generic business so that is a straight again that gets calibrated. So, it is not for any other we would love to grow faster but the nature of business it serves that we end up with the calibrated numbers that we are referring to.
- Tushar Bohra:** But from a profitability perspective there so it would be safe to assume that the stable state margins as and once you have reached an enabled scale the margin possibility is much higher for this business say maybe upwards of 23%, 24% would that be a fair assumption to make.
- Manish Gupta:** Absolutely and that is already demonstrated by the big companies in this industry some of them are upwards of 30% so this is a very stable margin highly profitable industry we are actually only catching up.

- Tushar Bohra:** Sir second question on the, so there was this sales for lot of the chemical and pharma API companies as well as so I will say in that sense where API business benefited from issues with the Chinese companies from environmental perspective and otherwise what is your view on that particular driver for growth from our perspective as and do you see that we can continue to sustain well into beyond the next couple of years from an API perspective.
- Manish Gupta:** So, what you are saying is correct in terms of broad directions of the industry but certainly there was also a run in the short-term for companies who were in the spot market business because of the shortages, but for long-term driven companies like us there was no short-term opportunity because anything that we do requires qualification with the customer. However directionally I would say what has happened in China now is pushing all the customers to look beyond china from a strategic angle and that is something which is going to work in favor of companies both in India and also even Europe in API so this is a long-term course correction and it is kind of a derisking which every company is now looking at.
- Tushar Bohra:** Sir just very quickly this issue that is come up with the China currently is all the news about Corona virus I would assume that there would be some impact on manufacturing some of the industries there would be temporary disruption if not maybe a longer-term are you just seeing any kind of humours on your industry or on your area of business.
- Manish Gupta:** Certainly not immediately. I mean see we obviously all of us are watching that situation closely, certainly impact if at all will not be seen in the next three months because our supply chain typically is already covered for that period but this continues and how many manufacturing units are impacted will eventually decide the long-term implication of this.
- Tushar Bohra:** Very well Sir, and one last question quickly on our strategy going ahead you have mentioned it briefly in the presentation, but just to understand where we are on our formulation strategy in US and Europe overall in terms of what kind of products and what is the visibility going forward for next two years.
- Manish Gupta:** Yes, Tushar I think this will entail a much larger response and I would request like we meet face to face on this because it is very important question which you have asked but will entail a much longer answer.
- Tushar Bohra:** Fair enough Sir, I will join back in the queue. Thanks so much.
- Moderator:** Thank you. The next question is from the line of Pallavi from Sameeksha Capital. Please go ahead.
- Pallavi:** Just going back to the point you refer to the global companies have this margin that is 40% and in which margins of 20% so I understand it is more driven by the economies are scale wherein they sell the product directly or rather than going through distributor so just wanted to understand what are the distribution margins in this business and in the US and Europe that would be our margins for distribution.
- Manish Gupta:** Pallavi the line was not good so I am not sure if I heard your full question but broadly from based on what I understood clearly for us our margin growth will be driven by new product launches specially injectables which are always better margin and our business hitting that inflection point because a lot of our investment has gone in

the frontend markets that we are present in, we are actually having our own organization with sales team in 10 of the global top 25 animal health markets and sell through distributors in other markets typically distributors...

- Pallavi:** So, in these 10 markets you do not use the distributors.
- Manish Gupta:** That is correct in top 10 markets globally out of 25 we have our own field force and sell directly without distributors; distributors are there only to the extent of logistics part and not in demand generation.
- Pallavi:** Sir this \$350 million of global market size product which you refer to the injectable it is catering to which segment like cattle or cat or dog.
- Manish Gupta:** It is a cattle product.
- Pallavi:** Lastly in Turkey which is the I mean of which product we have seen related one product which cattle this is we are catering to and what is the distribution model for long-term.
- Manish Gupta:** In Turkey did you asked this question for Turkey.
- Pallavi:** Yes, turkey the high growth is coming from any certain category of segment.
- Manish Gupta:** No, so Turkey we are present in cattle segment and that by a very strong manufacturing organization with 12 dosage forms, so made in Turkey is very important in Turkey which is what we have offered it is a high-class injectable facility again and that is what is driving our growth in that market.
- Pallavi:** I will come back later for more follow up questions. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Rohan Bhasin who is an Individual Investor. Please go ahead.
- Rohan Bhasin:** I was just asking about Italy and France business in particular, how have things progressed on those front and where do you see that going in a broader picture in Europe?
- Manish Gupta:** Rohan, clearly if you look at Europe, Italy and France are amongst the top five big markets we already had some presence in Spain and Germany. These were two big markets of course we did not want to take a position prior to Brexit in UK but these were the other two markets wherein we needed to have our own organization and that is how we launched both the Alivira France and Alivira Italy. As I mentioned a little earlier in the call we continue to lose money in these geographies, last quarter we lost about 2 Crores between the two geographies but we are certainly seeing light at the end of tunnel as far as Italy is concerned we should get into a breakeven situation in Q4 and maybe to small profitability thereafter. France will still take another 12 to 15 months and will be significantly dependent on the big injectable product which will get launched by our own field force as and when it commercializes and that will be this that time when we will relook at France.
- Rohan Bhasin:** So, but I am just referring back to our conference call at beginning of this FY2021 you said that about H2 of this year you would be able to turn that around so may I ask what things you have changed in this time. Is that two quarter enough to do that?

- Manish Gupta:** France is certainly taking longer than expected and that is why this is what I am referring to, that is always the toughest market either organically or inorganically it has been always a state wherein very few companies have been able to make headwind we certainly invested simply because of that peak injectable product which we had developed plus the pipeline so as I mentioned for me the big hope is on around that injectable.
- Rohan Bhasin:** It is okay Sir and that was enough. This is the big cattle injectable you were just refereeing to.
- Manish Gupta:** That is correct.
- Rohan Bhasin:** Okay the \$350 million, but do you think that I mean I am not entirely sure how this space particularly works in those markets but this time the market an important parameter for us.
- Manish Gupta:** For us certainly yes though historically people have not looked at time to market in animal health, but that is the sense of urgency that we are bringing in this industry. What is very surprising is that it takes sometimes more than a couple of years for the first generic to arrive in animal health and having come from human background that is the kind of urgency we are bringing in our business model and plan to be on day one of expiry.
- Rohan Bhasin:** Sure, but this is also a pretty huge product \$350 million worth of opportunity do you think that obvious certain urgency from other players to get in involve or you seeing anything from how we get people maybe in terms of filings or kind of market movement or you are seeing no competitive intensity building up so far.
- Manish Gupta:** So obviously competitive intensity is never visible in such things but will be in our own forecast we do expect between 2 and 4 competitors by the time we commercialize or around the time we commercialize.
- Rohan Bhasin:** Can you give the timelines of as you are so you it is now about you have a huge balance sheet but like you said the advantage from other market is not really relevant in this pace.
- Manish Gupta:** Yes, that is correct.
- Rohan Bhasin:** Thank you. That is all I have.
- Moderator:** Thank you. The next question is from the line of Vishal Manchanda from Nirmal Bang. Please go ahead.
- Vishal Manchanda:** Sir on the formulation business could you split the growth between new geographies, new product launches, price increase and volume growth in percentage.
- Manish Gupta:** Vishal that will be too much of data and this clearly that is highly strategic but that I can only clarify one thing new geographies are insignificant in the numbers that you are seeing it is only France and Italy addressed and that is not more than 10000 to 15000 Euros kind of number I mean it is not something which is going to change anything, but the other splits are not appropriate to even share.
- Vishal Manchanda:** But what would be the most significant element in the growth you were seeking new set of launch.
- Manish Gupta:** No, it will be split between new product launches and volume growth for existing products it will be mid way.

- Vishal Manchanda:** And on the five VMF filings where Sequent is the only filer any color on when these could be commercialized, any milestones there?
- Manish Gupta:** It is product by product conversations I mean in the sense there were some of those products are under patent some of those products are already off patent but there are a few formulators who are developing those formulations so difficult to give a kind of a single statement which will encapsulate the competitive dynamics or opportunities around those products we are happy to interact face to face and give you better color on that.
- Vishal Manchanda:** That is all. Thank you.
- Moderator:** Thank you. We have one last question in the queue. We take the last question from the line of Sachin Kasera from Svan Investment. Please go ahead.
- Sachin Kasera:** Yes Sir one question regarding this US and European filings while you have definitely shared lot of fact from this specific product which is the larger steamer of pipeline but typically for our better understanding what is typically the size of product for US and Europe in this filing that we have, it is like 15, 20 will enroll up our product or such higher end if you could just give us cumulatively what is the size of this 11 filings in US and this 26 filings in Europe the market approximately.
- Manish Gupta:** So Sachin again a very difficult question because there is no data that we can use to tell you this number across all the markets so it is partly self generated data and this is limited to the markets for which we have insight, so some parts of Europe certainly parts of US for the pipeline of 11 products that we have but collectively between all these molecules and markets we are looking at about \$1 billion opportunity.
- Sachin Kasera:** This is US and Europe put together for the combined 26 Europe and 11 in US correct Sir.
- Manish Gupta:** Yes, but it is not necessarily including all the markets in EU.
- Sachin Kasera:** Some of the select markets where we have actually done the filing so which we are looking to we are present in?
- Manish Gupta:** Yes, so where we have front end we obviously have better knowledge and where we do not have frontend in EU we do not have the numbers around those markets. So even if we are looking to commercialize in those we do not have a market data to support what I can say so therefore we do not include that in the billion-dollar opportunity which I have referred to.
- Sachin Kasera:** And the size will keep on increasing as we keep filing more products every year because we intent to keep filing 3 to 4 products every year from here on Sir.
- Manish Gupta:** Absolutely.
- Sachin Kasera:** Sir one question on the follow up on the US sales we already launched products and looking at FY2022 launch are we looking to build the front end organically or we would be looking to start for some acquisitions because I think we have in case if we are looking at FY2022 then we have only 15 months for the launch now.

- Manish Gupta:** Yes, so clearly both are on the agenda as I had mentioned last time we have already hired our first head of business in US and he clearly has a mandate to look around for acquisition opportunity and simultaneously also to build up our own organization should none fructify. So certainly, the first 12 months will be focused on acquisitions but clearly, we will not be over speeding for an acquisition should there be no appropriate opportunity we are happy to build up our own frontend organization which is already being conceived.
- Sachin Kasera:** But Sir in case we do not get acquisition as per what we like could it mean that and then we start to look and organically building that team would it mean that we could lose on some of the timelines on opportunity for few of the lucrative products because we would have lost share of 9 to 12 months looking for the acquisition.
- Manish Gupta:** Not at all, so that is why I am saying this guy that person whom we have hired Alan Kelly, his name, and we can share you his CV basically he has done this in his previous organization so clearly it is a two front strategy our base business case is built around having our own organization and not built around any acquisition it can only improve if we are able to do an acquisition.
- Sachin Kasera:** Sir two, three questions on balance sheet, one this the net debt that you mentioned is for the quarter right for the nine months the net debt reduction is 10 Crores is that understanding correct from the balance sheet.
- Manish Gupta:** Should be correct.
- Sachin Kasera:** And this capex number of \$ 7 to 8 million that was mentioned that was for FY2020 or FY2021 Sir in the call.
- Manish Gupta:** FY2021.
- Sachin Kasera:** What would be the capex for FY2020 Sir?
- Manish Gupta:** FY2020 would be \$5 million to \$6 million.
- Sachin Kasera:** And one question regarding this intangible I can see a sharp increase and there is small note mentioned that because of Ind-AS so if you could just explain us that, that would be helpful Sir.
- Tushar Mistry:** So again, as we had mentioned in our last call as per Ind AS 116 certain lease assets have been classified as part of assets so the lease assets form part of the balance sheet and equivalent liability comes on the liability side. So that is what effected from current year onwards. So total impact is about more than 100 Crores out of which almost 60 Crores is towards our lease lands in Vizag, Mahad and other facilities and the balance 50-55 Crores is towards all the rental premises and all that we would be having which are not actually owned asset but operating lease assets.
- Sachin Kasera:** Got it Sir thank you.
- Moderator:** Thank you very much. That was the last question in queue. I would now like to hand the conference back to Manish for closing comments.
- Manish Gupta:** Thank you, all for listening to the call and for your questions. As I have been mentioning in our earlier calls the performance for the last few quarters is a culmination of the efforts that were seeded a few years back where we

outlined our vision to be amongst one of the top global animal health company from India, we believe we have put all the necessary building blocks in place with operations across key geographies including Europe, Latin America, Turkey, India and now growing presence in the US. The proof of the pudding is eventually in numbers while it has taken us time, our last few quarters are reflecting of our robust business model supported by strong operating matrices across all financial parameters. We continue to remain positive about our prospects in the foreseeable future. We do look forward to interacting with you in future calls. Thank you once again.

Moderator:

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