



“Sequent Scientific Limited Q3 FY-22 Earnings Conference
Call”

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Moderator: Ladies and gentlemen good day and welcome to Sequent Scientific Limited Q3 FY22 Earnings Conference Call hosted by Limited. 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: A very good morning and thank you for joining us today for Sequent Scientific's earnings conference call for the third quarter and nine-months ended financial year 2022. Today we have with us Manish; Sequent's Managing Director, Sharat; Joint Managing Director and Tushar; CFO to share the highlights of the business and financials for the quarter. I hope you've gone through our results release and the quarterly investor presentation which have been uploaded on our website as well as the stock exchange. 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 Manish to make the opening comments.

Manish Gupta: Thank you, Abhishek. Good morning, everyone. A very warm welcome to our Q3 and 9MFY22 earnings call. Joining me on this call are Sharat Narasapur, our Joint Managing Director, and Tushar Mistry, our CFO. I take this opportunity to wish each one of you a very Happy and Prosperous New year 2022.

With the third wave of covid now largely behind us, I must admit that the nervousness that I had in late December at the beginning of the third wave is replaced with strong optimism, especially at the business front.

Coming to the business performance during the quarter, while our overall growth appears muted at 4.8% on a constant currency basis, this is largely on account of significant port congestion in India in December which led to almost 15% of our API dispatches not making to reported numbers. Overall, we saw a significant improvement in our API order-book and dispatches in the quarter which were almost at Q3 21 levels. While Albendazole continued to be subdued, our other API portfolio witnessed a 28% growth in the first 9 months. We also saw a recovery even in Albendazole with a sequential growth of 20%. This gives us strong confidence around API business being robust in Q4 with the growth momentum not only continuing but even accelerating in FY23, on the back of recovery in albendazole and commercialization of our multi-year MSA with a leading 'Top 10' animal health company.

Our formulations business continued its sequential growth momentum with an impressive 18.5% year on year growth on constant currency basis. Our strategic footprints in LATAM, India and Turkey continue to drive the formulations business. We faced extreme volatility in currency in Turkey. However, our proactive management initiatives ensured a 34% growth in the country

without sacrificing on the margins. We continue to build Turkey as a major hub for our export business and this recent depreciation makes this strategy even more attractive. Europe business also accelerated in q3 after a period of muted growth.

The industry has been plagued with rising and volatile input costs throughout the year. While the costs stay elevated, there seems to be a stabilization of volatility. Our efforts to mitigate the impact of these costs through price increase is beginning to show in the numbers in q3 and we expect a larger impact from q4 as price increases typically kick in the new calendar year. Overall, we envisage a sharp recovery in our operating margins to get closer to the FY21 margins in FY23.

Coming to a couple of corporate updates, in December we signed a definitive agreement to acquire a 100% stake in Nourrie in Brazil. This strategic acquisition is in line with our growth strategy and vision for Sequent 2.0 and marks our foray in the fast-growing companion animal segment in Brazil. Nourrie acquisition provides a portfolio of 23 commercialized and near-term pipeline of 17 products for pet and swine segments. We expect to close the transaction by end of February. Further, we also consolidated our holdings in our Brazil subsidiary to 100% by acquiring the residual minority stake. With this, we now have 100% ownership across all key subsidiaries excepting Spain, consolidating over 90% of the profits of the company.

Finally, as I mentioned earlier, we are confident of strong recovery in our API business from q4 which will drive strong improvement in our operating performance for q4 and FY23.

I would like to end with a personal note. As you must have heard, after an exciting 8 years of leading SeQuent, I have decided to move to the next phase of my life. I must admit that building Sequent has been the most satisfying and enriching experience of my career and I am indeed indebted to all the stakeholders for giving me this opportunity. I would also like to highlight that this change will have little impact on the company given the unique strength and positioning of the company in the animal health space. We have a clearly articulated vision and road-map for Sequent 2.0 under the strong guidance of Carlyle, and the Board of Directors and I take this opportunity to warmly welcome Rajaram who has an enormous track-record of performance to drive the company in this pursuit to be amongst the global 'Top 15' animal health companies in the world.

I will now hand over to Tushar to dwell on the financial performance of the company

Tushar Mistry:

Thank you, Manish, and good morning all. While Manish has given insights on the operational performance, let me discuss the financial performance for the quarter.

Our revenue, on a year on year & constant currency basis for the quarter, grew by around 4.8% to Rs. 3.5 billion. This was driven by formulations which grew by 18.5%, whereas degrowth in API business, driven by logistic related challenges, brought down the overall growth to 4.8%.

While gross margins are still below our expectation, we have started seeing traction from customers to accept increased prices, though in a cautious manner. We also continue to work on our cost improvement programs on input costs side. Both these initiatives should see fructifying results from Q4 onwards.

Marginally higher employee cost in some geographies, elevated freight cost, and one-off expenses put some pressure on our Reported EBITDA Pre-ESOP for the quarter, which came at Rs. 337 mn. ESOP cost for the quarter was negative due to the reversal of ESOP cost for Manish. As we have been pointing out on the previous calls that this is a non-cash expense wherein majority of costs are expensed in initial years of vesting, tapering off going forward.

PAT for the quarter came at Rs. 188mn. Growth in PAT on a sequential basis was due to a reversal in ESOP cost.

Q3 saw some significant movement in Turkish currency which moved from 8.8 to a dollar to ~17.5 and now stabilizing at around ~13.5. While we do have only translation impact on the P&L, such sharp correction will have some impact on net-worth as investments in Turkey get revalued at closing rates. This impact is taken to reserves. While we continue to monitor the situation closely it is important to note that our position as the 3rd largest player with local manufacturing only strengthens our position in the market.

On other aspects of balance sheet, we maintained our net debt on a sequential basis. Overall working capital remained stable as we took some conscious measures of curtailing the same in some geographies. The put option available to Brazil minority shareholders has now been concluded making Brazil a wholly owned subsidiary. With this we are now only left with 40% minority stake in Spain and a very negligible one in Sweden.

Overall, I am very optimistic for the coming quarters as input costs are rationalizing and the demand environment is improving. We believe we have bottomed out in terms of margins, and we will see improvements in all the financial parameters from the coming quarters.

Finally, I would like to inform that Christensen, our IR partners, have been acquired by EY and on account of conflicts of interest, as EY are also our auditors, the contract with Christensen has come to an end. They were very valued partners in our IR program and we shall miss their insights going forward. We shall keep the investors updated on new partners going forward.

That concludes my opening remarks, and I would request the moderator to open the floor for Q&A. Thank you!

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanam Jain, individual investor.

- Sanam Jain:** I had two questions for the management. Number one is we are saying is we are saying in the investor presentation that 15% of our API dispatches is stuck at the ports. So, is it likely to spill over to Q4, right? This is most likely deferred revenue. That's question number one.
- Manish Gupta:** That's correct, Sanat. That is not recorded as revenue and will be recorded in Q4.
- Sanam Jain:** The other thing I wanted to ask, based on the investor presentation, is in a regular year that has not affected by COVID, what percentage of our API business is contributed by the albendazole molecule?
- Manish Gupta:** About a third of our API revenues is contributed by albendazole which is equally split between human and animal health demand.
- Sanam Jain:** And WHO remains our big customer as far as this molecule is concerned, right?
- Manish Gupta:** That's correct. That's where there was a demand lag because if you recollect which we had mentioned that the schools in Africa are closed and therefore there was nothing WHO could do to distribute the product. Now that the schools have reopened the WHO demand is coming back.
- Sanam Jain:** So, to what I understand schools in Africa are now open, right?
- Manish Gupta:** That's correct.
- Sanam Jain:** Have the WHO released the dispatch orders or what is the current position now vis-a-vis the last quarter?
- Manish Gupta:** WHO does not release orders to us as we are an API supplier. WHO releases orders to the formulators and we are experiencing ~20% improvement in albendazole demand in Q3 versus Q2 and we are also seeing a strong demand for Q4 and thereafter. So obviously the real change is around the WHO-related demand which is driving the growth.
- Moderator:** The next question is from the line of Prashant kumar Hazariwala from Solitaire Financial.
- Prashant Hazariwala:** So, my question is you have mentioned something around the multi year agreement with one of the top 10 animal partners to do something. So, what will be the quantum for this contract per year?
- Manish Gupta:** So, I think I've already given that number that at peak we expect about between \$10 million to \$12 million of incremental revenues from that agreement and a significant part will also occur in FY23. So obviously it will not be peak in FY23 but it will be a fairly significant number in FY23.
- Prashant Hazariwala:** It will come into '23, right?

- Manish Gupta:** That's correct. Prashant, we can't hear you properly.
- Abhishek Singhal:** Prasant can we take the next question?
- Moderator:** As there is no response from the current participant, we'll move on to the next question from the line of Bharat Sheth from Quest Investment Advisors.
- Bharat Sheth:** This 15% of API which could not be dispatched because of congestion at port. So absolute amount is approximately how much?
- Manish Gupta:** It's very mathematical. It's upwards of 15 crores. But I would just want to clarify it is not dispatch. It was dispatched from the factories but it was stuck at the port for lack of vessels.
- Bharat Sheth:** Correct. And second question is that you said that in FY23 we can expect to reach FY21 margin in absolute term or I mean a percentage if you can just clarify a little more on that.
- Manish Gupta:** So, at this point of time, I think we have fair confidence to meet the absolute numbers. But as the year rolls, we will get more clarity on the actual picture. And so obviously as a percentage it will be lesser but we would be covering a significant part of the lost ground.
- Bharat Sheth:** And second thing pertain to the same thing to Tushar. So Tushar how much debt would be on account of reduction in the ESOP cost earlier we were looking and now has come down significantly in this quarter. So, this one ESOP cost which we write off that is a onetime or so cumulative impact if you can give a little more color?
- Tushar Mistry:** Bharatji this was a onetime reversal. So, it is full impact taken in Q3. Going forward also Manish will not be a part of this cost.
- Bharat Sheth:** Yes, I do understand.
- Tushar Mistry:** Yes.
- Manish Gupta:** What will be the Q4 ESOP cost roughly?
- Tushar Mistry:** About 78 million.
- Bharat Sheth:** And that will again come down significantly in FY23? Is that fair understanding that run rate?
- Tushar Mistry:** FY23 for the ESOPs that are already granted to other employees, the costs will come down. It will taper down as I mentioned earlier. But if any new ESOPs are granted to others the cost for that can build up.
- Bharat Sheth:** Approximately absolute for full year will be how much?

- Tushar Mistry:** For next year it is difficult to mention at this stage. We will revert on this once that clarity comes up.
- Bharat Sheth:** So, coming back to Manish, so after factoring this we are talking of maintaining EBITDA in somewhere near range of FY21 or without that?
- Manish Gupta:** No. So Bharatji we always talk of operating performance which is pre-ESOP because that's what we directly control. ESOP is something which is technically in a way because it is a noncash cost and it has a lot of accounting and somebody else may join and all those things come in. So, we are only referring to pre-EBITDA cost.
- Tushar Mistry:** ESOP.
- Manish Gupta:** Pre-ESOP cost sorry. Pre-ESOP cost.
- Bharat Sheth:** And thank you and wish you all the best Manish-ji in your new endeavor.
- Manish Gupta:** Thank you Bharat-ji.
- Moderator:** The next question is from the line of Rushabh Doshi from Proinvest Nirmiti Investment Advisors.
- Rushabh Doshi:** So, my first question was like a lot of things have changed in Turkey and as investors what we see is that they lack some basic stable policy or the way business should be done. So, what is our current stance on Turkey because what I see is that we are working very hard but the currency depreciation it just pulls us down back again. So, what is our view going ahead? Are we going to make incremental investments or we might think of exiting it in the near future?
- Manish Gupta:** And Rushabh what is your second question? If you can ask that also so that I can respond comprehensively.
- Rushabh Doshi:** Yes. So, my second question is more to do with our API contract win from the top 10 customers. So, is that going to start in Q4 or Q1 in the next financial year? And just one last bookkeeping question. Our CF-to-EBITDA ratio, it's been one of the great in the Indian industry. So, in this year what would that number look like, so these are the three questions?
- Manish Gupta:** Tushar you would like to respond to the third one first and then I'll give the assessment.
- Tushar Mistry:** Yes. So, the EBITDA to cash conversion that we used to have earlier prior to FY22 was upwards of 75%. But current year we are seeing that pressure on EBITDA to cash conversion. Current year we should come down below 40% is my estimate at this point of time. FY23 we should again see this cash conversion going up in the quarters to come.
- Rushabh Doshi:** You're taking the reported EBITDA or the adjusted one for ESOPs?

- Tushar Mistry:** This is pre-ESOP because as I mentioned ESOP is a non-cash item. I'm taking pre-ESOP.
- Rushabh Doshi:** Correct.
- Manish Gupta:** So, coming to your other questions and I'll again take the second question first which is about the commercialization of the new contract. So, it will start in next year, probably towards the end of Q1 or early Q2 would be the first supplies against that contract. And that's why I said we will not hit the peak for the next year. Peak will be somewhere in FY24.
- Coming to your main question on Turkey. See I think this is a very broad question and the recent hiccups is nothing. Turkey by itself is one of the very important animal health market. It's amongst the top 10. Turkey is a big exporter of animal health products for the region. And we have a strong position there with local manufacturing. It's also a highly injectable-based model that we have in Turkey with the EU-approved facility. So, in our scheme of things the recent event actually makes Turkey even more attractive, not only from local market perspective because many of our competitors there are importing products and that obviously this depreciation makes it even more difficult for them or make them less competitive. That is one part. And the second part is because we are also developing Turkey as a hub for exports, this depreciation actually works better for us making it even more competitive. I must say that today the cost of manufacturing in Turkey is actually significantly lower than in India. And so therefore, Turkey is actually playing out very well for us. Our outlook for Turkey has not changed. We look at Turkey as a business which is both, Turkey and export markets and you will see significant growth coming from Turkey on our business. Does that answer Rushabh?
- Rushabh Doshi:** Yes partially. But are you not to be honest, afraid of investing more in Turkey that things would backfire going ahead?
- Manish Gupta:** No, we had already fully invested. I don't think we are increasing our exposure in Turkey but we are leveraging that exposure even better and even more. So finally in business if you start reacting to these kind of things then you can never build business. We build an animal health business when nobody envisaged from India. We've got into Turkey and Brazil which very few Indian companies dare to do. And these are highly performing outcomes for us. So, I take it as an opportunity and not act like an investor. We are eventually creating long-term, sustainable, valuable business and I believe Turkey is a very important element of that in the business that we are in.
- Moderator:** The next is from the line of Vishal Manchanda from Nirmal Bang.
- Vishal Manchanda:** If I look at LATAM performance it has improved significantly on a quarter-over-quarter basis. It's almost up 30%. So, can you share what has driven this performance?
- Manish Gupta:** Yes. So, Vishal we have been consistently outperforming in LATAM, largely in Brazil. As we add more products, commercialize more products and also gain more accounts in the local market. So, I think there is no particular reason and that you'll not see fluctuations in our

Brazilian business. Quarter by quarter, every quarter the business has been growing and this outperformance continues. It has been one of our star performing businesses. We bought this company from bankruptcy. And if you look at the I think 5-year track record from—I don't recollect the numbers but we have—5X of where we started from. So, there is no particular reason. It's a superior execution that the team does there.

Vishal Manchanda: And there is no inorganic component to this. So, it's entirely driven organically, the quarter-over-quarter improvement?

Manish Gupta: Absolutely. The only inorganic will start showing up in Q4 and that too it's a very small one.

Vishal Manchanda: Right, the Nourrie acquisition?

Manish Gupta: That's right.

Vishal Manchanda: On the gross margin part, can we expect that to come back in the next quarter around similar levels as you were doing in the past or it will take some more time to be normalized?

Manish Gupta: We expect a recovery. Can we go back to that level immediately? It will take time. I don't think it can be done in a year because the costs stay high. Globally every commodity price stays high and it is difficult to pass on all the costs to the customers. But we will make a reasonable journey during the year.

Vishal Manchanda: Just a broader question. So, if we look at Sequent formulation business so in terms of, can you give a number as to what number of molecules we would be covering out of the total number of molecules that would be approved for animal health and have patent expired if there is a number that you can share on that?

Manish Gupta: I don't think I have a number because nobody even knows the total number of molecules in animal health. But if I were to make a wild guess, it will be between 15% to 20% of number of molecules. This I'm talking from a formulation's angle and not from API angle. API will be less than 10%.

Vishal Manchanda: And there is an opportunity, so you are working around adding molecules or you are working around making some existing molecules more widely available. So, what's that you would look at making existing molecules more widely available or adding more molecules to the existing pie and getting deeper into existing geographies?

Manish Gupta: So, Vishal, it's a mix of both. Animal health that's why I keep saying it's a very dull and boring industry. There are no big-ticket items to go after. You have to do everything to get your growth going. And that's why it will be deeper penetration as also enhancing the basket and partly get into new markets. So, it's a combination of all the 3 that will drive our growth. But the good thing is it is a sustainable growth and a profitable growth. That's the beauty of this industry.

- Moderator:** The next question is from the line of V.P. Rajesh from Banyan Capital.
- V.P. Rajesh:** My first question is with respect to the margin guidance that we have talked about a few quarters ago that this business could be in mid-20% kind of margin in the long term. How does that stand now given the disruption we saw this year?
- Manish Gupta:** No, I don't think this year has changed anything in terms of our business outlook, it is also the dynamics of the industry. So there has been abnormal cost pressures this year. It is not limited to us. I think it's all across. We are living in a hyperinflation economy at this point of time for various reasons. I think over a medium-term period we have no reason to believe that we will not be at the levels that we had envisaged earlier. Probably it will be a year or 1.5 years later.
- V.P. Rajesh:** That's understandable. So, are you saying that cost pressures will come down incrementally from here as the supply change that we stored or are you saying that we will grow so much faster that we can make up for that? What are the levers that will bring it to that potential trajectory?
- Manish Gupta:** So, there are three or four things because again there are no straight answers. One is obviously we are passing on the cost increases. And while it takes time to get adjusted or expected but it is going through. Second is we are also working on our own cost efficiency programs because whenever you face pressure that's when you tend to also look within on what you can do in terms of your process efficiencies. And there is a very proactive program that we are running around that. And the third thing is while the costs have gone up and there was immense volatility around the costs. But at least now it has started stabilizing. It's not coming down but it has started stabilizing. And once you have stabilization you also have a better ability to predict. The last 9 months our challenge was where to peg our prices. So, it's a combination of all the three which is giving us the confidence of recouping our margins.
- V.P. Rajesh:** My other question is that the change of guards at the top. Does this change anything in terms of our exploration and strategic road map to get to let's say top 10 animal health care companies in the world or in terms of any other major strategic shift that one can expect?
- Manish Gupta:** I think Sequent is an institution. We have a very clearly articulated vision for Sequent 2.0. It has nothing to do with the CEO or MD, it's a corporate vision. So, for me I do not believe there will be any change. It's only a change of individual.
- V.P. Rajesh:** All the best Manish for your next career aspirations. Look forward to interacting with you then.
- Manish Gupta:** Yes, thanks Rajesh.
- Moderator:** The next question is from the line of Varun Pinto from Value Educator.
- Varun Pinto:** So, my first question is about the Germany facility, the Bremer facility. So, what is the status of that like have we finished, have we gotten any update from the US-FDA on when they will be visiting?

- Manish Gupta:** Yes. And what is your second question so that...?
- Varun Pinto:** So, my second question is about Turkey. So what countries are we looking to export from like the Turkey facility? Is it just like the Middle East and the Eastern Europe and Europe countries or like anywhere else as well?
- Manish Gupta:** Yes. So, I'll again take the second one first because that's much easier. So, Turkey is a EU-approved facility and it is a comprehensive facility across eight manufacturing formats including injectables, orals and liquids. So, we are targeting both, EU or rather I would say ex-US everything else is being targeted from Turkey. While Germany is being developed only for the US market in the strategy going forward.
- Now coming to Germany. This is the only project which we kind of got derailed because of COVID. So, we had to undertake a scale-up of the facility for US-FDA and also upgrading for the USFDA. This project was to start about 18 months back but there was nothing we could have done in the last 18 months. As we speak, the project will be taken up from April this year and the facility will be ready to be offered to US-FDA by end of the current year. So that's the current status, we expect inspection next year.
- Varun Pinto:** And about the CAPEX for next year. Could you give us some details on that?
- Manish Gupta:** Again, I think we have conveyed that in the past, we are envisaging an investment of little over 100 crores over the next 18 months. This will spread between Brazil, a very small bit in Brazil but in Germany, in Turkey and in India and it will be in the region of as I said a little upwards of 100 crores over next 18 months.
- Moderator:** The next question is from the line of Chintan Chheda from Quest Investment Advisors.
- Chintan Chheda:** My first question is on the API business. So, excluding albenazole we have shown a very strong growth this time of 28%. So, can you just throw some more light like what has led to this kind of growth?
- Manish Gupta:** I mean that is part of our business strategy. See if you recollect, our focus is on regulated markets and regulated customers and once we are part of their file and more and more customers are putting us on their formulation this growth and that was also one of the reasons why we had been guiding to an upwards of 20% growth in our API business. There's no reason, it is part of our business strategy. We are uniquely positioned in this space with the only US-FDA approved, Vet-API dedicated plant and also a portfolio of 30 commercialized APIs and all the big companies already are existing customers. We are actually penetrating deeper and deeper with them.
- Chintan Chheda:** How many molecules we would have added in this first nine-months?

- Manish Gupta:** We have done three filings; three new APIs have been commercialized but see none of this really matters from a current year revenue perspective because what we have filed this year is not what has changed the growth. What we had filed 2 years back is what is reflecting in our growth this year. Our current filings will only start reflecting in our performance maybe between 2 to 3 years down the line because formulator has to take those APIs and then validate using our API.
- Chintan Chheda:** Annually we can expect three to five filings every year or that number can go up also?
- Manish Gupta:** No, that's correct. I think three to five, animal health is a very definite world. It doesn't have the number of molecules that you see in human pharma. I think we are very happily placed with three to five APIs each year.
- Chintan Chheda:** Once this albendazole stabilizes, we expect (+20%) growth on this business, API business?
- Manish Gupta:** Absolutely. Actually, you will start seeing it from Q4 itself. That's what I mean.
- Chintan Chheda:** Secondly my question is on this Nourrie acquisition. So how does it complement or you can say adds more synergies to our existing business in Brazil? Can you throw some light on that?
- Manish Gupta:** If you recollect, I mentioned that there is a portfolio of 17 near-term products between swine and pet animal segment. Now the swine segment is where we are currently strong in, swine and poultry. Obviously, a part of this additional 17 products which are in swine as a segment, will add wings to our existing business. Of course, the rest then second part is we get a foray into the pet animal business which is currently small in Nourrie but with the execution team that we have in leadership in Alivira, Brazil certainly the growth will be far better than what Nourrie could do in the past.
- Chintan Chheda:** Just understand more on this opportunity. What could be the size of the companion market in Brazil and who are the top three players?
- Manish Gupta:** No, obviously it is strategic information. We are happy to have a separate conversation around it. But Brazil just for information is the fourth largest companion animal market in the world. It is the fastest growing in that segment across the world.
- Chintan Chheda:** One more question is on the German facility. Now what is the total CAPEX that we are planning to do and what could be the asset turn on that CAPEX?
- Manish Gupta:** Our total investment, additional investment is in the range of \$6 million which will happen in this project, which covers both hardware and software. Asset turn currently is negligible. I mean it is currently in a good range, however with new investment, initially it will be very low because the FDA approval and commercialization only will trigger growth there. Initially the asset turn will be low but once the approval start coming through it will be one of the biggest drivers of our growth in year 4 and 5 of our strategy.

- Chintan Chheda:** What can be the expected tax rate for FY23 and '24?
- Tushar Mistry:** It should remain within this 20% rates.
- Moderator:** The next question is from the line of Arvind, individual investor.
- Arvind:** First I have a few clarifications to your questions. First is, the new MD, CEO who is joining, there is not going to be any major ESOP which is cost associated with him, right? Because the way the account or the ESOP charge would see a sudden increase post the joining of new MD? Would it be a right assumption that there could be a jump in the charge on the 17 million number that you indicated?
- Manish Gupta:** I think this is a matter of NRC to decide. I don't think we'll be able to give clarity on that because once he joins, based on what NRC decides and it'll also require shareholder approvals. Once all things are known to us, it will be properly accounted. But right now, we do not have any visibility around that.
- Arvind:** Second question is WHO, you indicated that the revenues should start flowing in. Is it possible to indicate it indirectly how big is WHO revenue for us? I know you don't have a direct revenue so its via formulator but how big it could be? Generally, in a normalized year it is 10%-20% or it is more for you?
- Manish Gupta:** No, it is not even, one precise number is very difficult to give because even we don't know that but roughly about less than 10% or above 10% of our API sales might be linked to the WHO supplies of albendazole.
- Arvind:** The second question is on Brazil and Turkey. Now these are the markets which are generally very volatile as far as currency is concerned. So, when we look at translated growth, in INR terms; even if you do very well over there; so generally, it has a volatile impact because we have seen this happening across various other companies who have exposure over there. The translated growth is generally very volatile. How do you look at it because when you look at the rupee-term growth how are you looking at Brazil and Turkey in that sense or even LATAM as a whole I would say and Turkey? Is there any thought process on which you can help us understand? I understand your business case is very strong and which I agree with you.
- Manish Gupta:** See we obviously monitor both constant currency growth or the reported currency growth as well as the local currency growth. Both for us are important growth parameters. We always have a budget around it in terms of, there is a dollar peg in our internal monitoring as well and let me respond to a bit more. See Brazil was extremely volatile maybe 7 or 8 or 10 years back. But if you look at the last 5-year track record of Brazilian currency, once they got it right, it is more or less in line with the Indian currency behavior. There is this small depreciation every year but that's largely how Indian currency behaves as well against the dollar. Turkey, it is the way. It used to be fairly stable but last couple of years have been volatile. Probably the volatility has peaked this year. I believe there will be elections soon in Turkey and again see eventually no

country can afford these kinds of volatilities. If you go to Turkey, you'll see it a highly throbbing economy. All in all, from monitoring and measuring performance perspective, we monitor both. Are these economies not vibrant? Answer is they are highly vibrant and consuming economies which is what is important for us. Very big animal health markets and with a long-term view I think this all balances out.

Arvind: With respect to this new contract that you indicated with among the top 10 animal health with whom you start this year? Can you just remind us the nature of this contract? Why I am asking is that we were looking at using this as a base and expanding on that. Trying to add more clients or more regions etc. that was our initial thought process. Now where are we in that and what is the delay that we are seeing because of this entire disruption that has happened?

Manish Gupta: Arvind, this is the second contract which we are referring to. What you are referring to is the first one which we had announced about 18 months back. This is a second contract. This is a supply agreement. It's a product which developed by us. It is our IP and it is a commercial supply agreement. While the first one which we had talked of in the past, was both a supply agreement, and also it had an element of CDMO. The one which we are talking about driving growth for FY23 is not a CDMO part of business; it is a supply agreement purely backed by our IP.

Arvind: But how are we looking to build on this? Now you have two contracts over a period of 18 months which is a very good thing but from here on, how should we look at it? Can the size of the contracts grow up or can you dig deeper into this client on similar nature of contract?

Manish Gupta: Absolutely, it is both. Not only the product I mean we may start with say 5 tons first year, 10 tons second year, 20 tons third year so that is one. Second is number of products getting into that contract as you build the relationship and the partners gain confidence in our supply chain & in our ability to service. This is the only way to grow the business and that's what we are good at.

Arvind: My question was when can we start seeing that impact? Because it's a long time to develop that process. Where are we in that process? I was trying to understand that.

Manish Gupta: Arvind, that's why when we talk of 20% growth in our API business for the medium-term, it is all stemming from these. You forget that this year was an exception wherein we'll end up with a flattish API revenue. But otherwise, we have been consistently growing at close to 20% and we continue to maintain this forecast in the medium-term.

Arvind: Just one clarification. Turkey, can you just indicate what was your average exchange rate for the quarter and where it is and how should we look at for Q4? It will help us to understand the extent of impact, sequential positive impact that we could see from there? And how to look at Q4 or current rate?

Tushar Mistry: The average exchange rate for Q3 was 7.2 for the quarter. That is Turkish Lira to INR. The current levels are at around 5.5.

- Arvind:** Current are 5.5 but what was the Q3? I missed that.
- Manish Gupta:** 7.2 for Q3.
- Arvind:** That is the immediate impact that we will see sequentially.
- Tushar Mistry:** Yes. That's correct.
- Moderator:** The next question is from the line of Bhavesh Gandhi from Yes Securities.
- Bhavesh Gandhi:** First on Turkey. Now, given the local currency growth that we had so I presume we would have some element of market share gain. As you alluded, competitors are facing pressure because they are importers. Going forward is this sustainable or once the currency stabilizes and the competition is again on its feet, we might see some of these ebbing away in terms of growth? And second is on the pet's business. If you can provide an update for India and from the other select geographies and when can we expect them to move the needle in terms of revenues?
- Manish Gupta:** Bhavesh, Turkey again let's not look into what is happening now but if you look at a 5-year picture for us; it has been a consistently outperforming business that further gets strengthened by what has happened in the recent past in terms of currency. I I have very strong belief that Turkey will continue to outperform going forward rather than slowing down even if the others get back. We have not seen the impact of that in the sense that we were carrying inventory. Their struggle will be in FY23 not in FY22 as they import new products with the fresh currency rates. I expect an actually a very strong performance in Turkey in FY23 and thereafter. Now coming to, what was your second question?
- Bhavesh Gandhi:** The pet business.
- Manish Gupta:** The pet business. So, strategically you'll see that we have chosen only three markets for pet business which is India, Brazil, and Turkey. In India we launched our own products at the start of the current financial year. It's not a great time to get into a new business because doctor connectivity is very difficult to establish in the current environment. I expect minimum 12 to 18 months before it starts making meaningful contribution to our numbers as far as India is concerned. Brazil, we have chosen an inorganic route. You'll see a very small delta in Q4 with some reasonable numbers starting from next year. As far as Turkey is concerned, we are still evaluating. The reason is simple because based on our India experience, we know establishing a doctor contact or connect at this time is not so easy. We would rather wait for the environment to improve before we launch.
- Bhavesh Gandhi:** Just on the product supply, to the Top 10 animal health. If you can just elaborate what is the nature of this contract since we own the IP, is it a combination of transfer pricing plus profit share? What is the nature of the contract?

Manish Gupta: No, it's a standard supply price contract. I mean there is a price with a flexibility to review the price every year in terms of if there are any cost pressures. There are certain minimum volume obligations and forecasting and all that. It's a very typical supply contract. The key in the supply contracts is when you get into their file or their regulatory approval, you are there for good unless you goof up.

Bhavesh Gandhi: And just a follow up on this. So, we presume would we be the primary suppliers or just like in human pharma you have a primary and secondary backup. So where are we placed in this? Are we the primary or the secondary supplier?

Manish Gupta: Bhavesh you always start because it's an old product, they are already sourcing from somebody. We start as a secondary and then you claw up to become a primary based on your superior supplies. I think the difference of course one more difference which is a little more competitive and I won't dwell into it much is that we are uniquely positioned in this molecule, given the supply chain challenges of this molecule.

Moderator: The next question is from the line of Nirvan, individual investor.

Nirvan: The first question is regarding the API revenues for this financial year. In the last con call, you had mentioned that you expect to end the year flattish compared to last FY. Given that 150 crores is the pending what is your confidence on that? Second is can you elaborate a little bit more on the erosion in shareholder equity due to the Turkey business? Like what kind of assets have been impaired for this erosion to happen?

Manish Gupta: So, I'll answer the first and Tushar the second. As we had indicated that we will be ending the year fairly close to our last year's API numbers. We stay reasonably confident of that. Say for any logistical challenges; we should be fairly close to that number. We are fairly confident based on the current order book and the dispatches that because that's in our control. So, we are very confident of that. Say for any logistical challenges we are well-placed. Now coming to...

Tushar Mistry: So, on the reduction in the net worth, first thing that we clarified that this on of our account of impairment. Impairment is a different terminology altogether. This is on account of translation of the Turkish balance sheet from Turkish Lira to INR. So, whatever is the difference in the exchange goes to the reserves and the impact of that is reduce the reserves to that extent. We don't see any impact due to impairment on this account as of now.

Nirvan: It is because the reserves, the valuation on the reserves have gone now.

Tushar Mistry: Yes. That's right.

Nirvan: One more follow-up question Manish. You mentioned that albendazole was 30% of your API portfolio approximately. So, if I compare the last FYQ2-Q3 API numbers with this FY numbers and considering you have dropped in 25% to 28% growth and your other API baskets. Is it fair to assume that albendazole sale had almost gone down to zero in Quarter 2-Quarter 3? And

therefore, how do you see this pickup happening in Quarter 4 like are we going to come back to the full 30% value or is it going to be closer to 15%-20%? Like I'm just trying to get a sense of the scale of the comeback because in the last quarter con call also you had mentioned that you were expecting from this quarter things to improve but seems that it hasn't improved much.

Manish Gupta:

First, I want to clarify that it has improved in Q3 and say for the logistical challenges, if you adjust that 15% odd you will see that actually there was a significant improvement in our API business but unfortunately for lack of vessels and whatnot, we could not recognize warehouse revenues. That is one. Secondly, I think problem with these numbers is you look at it quarterly and for the numbers that I am alluding to are the annual numbers. API business is a B2B business. You can't kind of replicate it on a quarter-by-quarter basis. Albendazole maybe 30% in one quarter, maybe another number in another quarter. So, look at it more holistically and whatever numbers that we are talking of are more at a full year level and not at a quarter-by-quarter level.

Moderator:

Ladies and gentlemen we will take the last question from the line of Rajeev Venkatesh, individual investor.

Rajeev Venkatesh:

So, Zoetis bring our customer, they have been very vehement on the growth prospectus from China and Europe. But in our investor presentations I don't see much growth from Europe. So, I just wanted to know what is your thought process on this? My second question is on the China swine market is huge. Are we directly marketing our formulations or still supplying to the formulators there? I just wanted to know what exactly is the thought process over a period of time, especially in China?

Manish Gupta:

See we do not have a China strategy and we have been very clear about it. We have zero sales or exposure to China. We do buy from China of course but we don't sell anything in China. This is something wherein we actually expect Carlyle to play a role and unfortunately, obviously because of COVID we have not been able to make progress. Can we ignore China? Answer is no, it's the second largest animal health market in the world. There is something that we need to eventually play out. Coming to Europe, it's inappropriate to compare us with Zoetis because we are totally different companies. They are an innovator company. We are a generic company. They are more in pet animal segment and that's what is giving them confidence to grow there. We are more in the large animal business. That's something which is stable. There are lot of complexities around it and specially for a smaller player today right now, given the COVID scenario wherein you can't go and meet the doctors so easily, therefore our growth is challenged. As the world opens up, you will see a recovery both driven by new products as also enhanced customer connect as the years go by.

Moderator:

Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to the management for closing comments.

Manish Gupta:

Thank you once again for joining this call so early that too on a Saturday morning and we do hope we have been able to answer most of your queries. If we have missed out any of your

questions, kindly reach out to our team and we shall get back to you offline. Thank you and have a good weekend.

Moderator:

Thank you. Ladies and gentlemen on behalf of Sequent Scientific Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.