Sequent
Proven Ability In Life Sciences

February 1, 2025

BSE Limited
Corporate Relationship Department
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai – 400 001.

Scrip code: 512529

National Stock Exchange of India Limited
Listing Department
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East),
Mumbai – 400 051.

Symbol: SEQUENT

Dear Sir/ Madam,

Subject: Intimation under Regulation 30 of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to the above referred, we wish to inform you that India Ratings and Research, has revised the outlook on the Company's bank facilities to Positive from Negative while affirming the ratings as follows:

Instrument type	**Size of Issue (million)**	**Rating Assigned along with Outlook/Watch**	**Rating Action**
Fund-based working capital limits	INR 350	IND A/Positive/IND A1	Outlook revised to Positive from Negative; Affirmed

Press Release on the same is enclosed herewith for reference.

We request you to take the same on your record.

Thanking you,

Yours faithfully,
For **Sequent Scientific Limited**

Vora Yoshita Susmit
Digitally signed by Vora Yoshita Susmit
Date: 2025.02.01 17:30:00 +05'30'

Yoshita Vora
Company Secretary

IndiaRatings & Research
A Fitch Group Company

India Ratings Revises Outlook on Sequent Scientific's Bank Facilities to Positive; Affirms 'IND A'

Jan 31, 2025 | Pharmaceuticals

India Ratings and Research (Ind-Ra) has revised Outlook on Sequent Scientific Limited's (SSL) bank facilities to Positive from Negative while affirming the ratings as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limits	-	-	-	INR350	IND A/Positive/IND A1	Outlook revised to Positive from Negative; Affirmed

Analytical Approach

Ind-Ra continues to fully consolidate SSL's wholly-owned subsidiaries - Alivira Animal Health Limited (AAHL; debt rated at 'IND A'/Positive/'IND A1') and Sequent Research Limited (SRL) - to arrive at the ratings, due to the strong operational and financial interlinkages among them as all the companies operate in the same line of business.

Detailed Rationale of the Rating Action

The Outlook revision to Positive from Negative reflects Ind-Ra's expectation of a further improvement in the consolidated revenue and profitability, driven by a recovery in its key geographies including Turkey and Europe, and new product additions and expansion in the companion animal products, leading to improved financial performance and credit metrics in the near-to-medium term. The EBITDA margins improved to 10% in 1HFY25 (FY24: 5%; FY23: 7.7%), driven by the closure of loss-making manufacturing set-up in Germany, combined with prudent pricing strategies in Turkey, benefits from portfolio rejig in Spain and cost-optimisation initiatives in the active pharmaceutical ingredient (API) business. However, the group's EBITDA/pre-tax cash flow from operations (CFO) conversion declined over 1HFY25 led by high working capital requirements, among others. An improvement in the working capital efficiency and EBITDA/pre-tax CFO conversion will remain a key rating monitorable.

List of Key Rating Drivers

Strengths
- Strategic initiatives boost revenue growth in 1HFY25
- Operational efficiency elevates EBITDA margins in FY24 and 1HFY25
- Significant improvement in credit metrics in 1HFY25, likely to improve further in near-to-medium term
- Diverse revenue streams
- Financial flexibility

Weaknesses

- Exposure to regulatory actions
- Macroeconomic challenges

Detailed Description of Key Rating Drivers

Strategic Initiatives Boost Revenue Growth in 1HFY25: During 1HFY25, the consolidated revenue grew to INR7,588 million (1HFY24: INR6,792 million) and EBITDA (post excluding employee stock ownership plan; ESOP) to INR792 million (INR69 million) as the company is expanding into emerging therapeutic segments and adding new products across multiple geographies. With the ongoing transformational initiatives, SSL's EBITDA improved significantly. Although revenue growth has been subdued due to the discontinuation of certain businesses in FY24, revenue grew in 1HFY25 and the management expects the revenue growth to accelerate in the near-to-medium on the back of investments in research and development (R&D), and maintaining of a competitive cost base.

In FY24, the consolidated revenue declined marginally to INR13,697 million (FY23: INR14,209 million), mainly due to a 14% yoy decline in the API segment, attributed to facility revamps, network optimisation and lower demand from the regulated markets. However, the API segment grew 6% yoy in 1HFY25, driven by strong growth in the deworming portfolio. Furthermore, the formulations business, which contributed 73% to the total revenue in FY24, faced challenges due to currency fluctuations and reduced exports to Middle East and North Africa markets in FY24. However, the decline in revenue from other geographies was partially offset by a 17% yoy growth in the European market, driven by portfolio revamps in Spain and streamlining of operations in Turkey.

Operational Efficiency Elevates EBITDA Margins in FY24 and 1HFY25: SSL implemented cost-optimisation strategies, including rationalising operating costs and enhancing manufacturing capabilities in the API segment. The company discontinued operations in Germany and at the Tarapur plant in Mumbai, revamped the Vizag facility, and optimised procurement costs. These efforts led to lower raw material costs as a percentage of revenue to 55.6% in FY24 (FY23: 58.7%), thus improving profitability. The gross margins increased to 44.4% in FY24 (FY23: 41.3%) and EBITDA margins to 5% (2%). Ind-Ra will monitor quarterly EBITDA and revenue performance improvements in 2HFY25.

Significant Improvement in Credit Metrics in 1HFY25, Likely to Improve Further in Near-to-Medium Term: On a consolidated basis, the net leverage (total adjusted net debt/post ESOP EBITDA) improved to 2.6x in 1HFY25 (FY24: 6.1x; FY23: 13.9x) due to increased EBITDA. Excluding ESOP expenses, the net leverage stood at 2.3x in 1HFY25 (FY24: 4.6x; FY23: 6.3x). The debt rose slightly to INR4,876 million at FYE24 (FYE23: INR4,436 million; FYE22: INR3,149 million) owing to an increase in utilisation of the fund-based working capital limits to 86% to support business growth. Furthermore, the interest coverage (Post ESOP EBITDA/gross interest expense) improved to 2.58x in 1HFY25 (FY24:1.44x; FY23: 0.81x) primarily on account of the improvement in operating EBITDA. Excluding ESOP expenses, the interest coverage stood at 2.94x in 1HFY25 (FY24: 1.90x; FY23: 1.81x). Ind-Ra expects the net leverage to improve further in the near-to-medium term with the likely increase in EBITDA.

Diverse Revenue Streams: SSL has a strong business profile due to its diversified revenue streams across geographies and products. In FY24, it derived 73% of consolidated revenue from formulations (FY23: 70%) and the remaining from APIs. Of the total formulation sales in FY24, the regulated markets of Europe contributed 36% (FY23: 29%), followed by Latin America 19% (19%), India 8% (7%), Turkey 7% (9%) and Emerging Markets 4% (6%).

SSL operates three manufacturing facilities in India and four overseas, maintaining low production concentration. Ind-Ra expects growth in both formulations and APIs to continue in the near term, driven by the introduction of new products, diversification in the companion animal segment, market expansion, and tapping into various geographies with Phyto solution range and nutritional bio-actives.

Financial Flexibility: SSL will continue to benefit from its promoter, Carlyle Group (CG; Fitch Ratings Ltd Issuer Default Rating 'A-'/Stable), leveraging their experience in the animal healthcare segment to ensure sustainable growth. Additionally, Carlyle Group has demonstrated its willingness to infuse additional capital if needed, to address any liquidity shortfalls and support growth, ensuring adequate liquidity and balanced leverage.

Exposure to Regulatory Actions: SSL remains exposed to regulatory risks, as it derives nearly 70% of its API revenue from the regulated markets. Adverse regulatory actions could negatively impact EBITDA resulting in increased net leverage, affecting ratings. However, diversified product approvals across manufacturing units help mitigate this risk. All of SSL's and AAHL's manufacturing facilities comply with regulatory guidelines. Given SSL's presence in the large markets such as Europe, Brazil, and India, changes in regulatory guidelines on pricing or therapies and their impact on SSL's business profile remains a monitorable.

Macroeconomic Challenges: Developed markets, including the European Union and the US, are experiencing a slowdown due to geopolitical issues such as the ongoing Russia-Ukraine war, conflicts in the Middle East, and inflation, leading to tighter economic conditions. SSL was affected by these challenges during FY23-FY24, but recovery has been observed in 1HFY25. The recovery in pricing and volume demand in the export market will be a key rating monitorable.

Liquidity

Adequate: On a consolidated basis, SSL's unencumbered cash balance stood at INR741.2 million at 1HFYE25 (FYE24: INR674.2 million). The company's maximum month-end utilisation of the fund-based working capital limits was 64% and non-fund-based limit was 12% in the 12 months ended December 2024. The company has debt repayment obligations of INR186.2 million and INR116 million in FY25 and FY26, respectively. The company's pre-tax cash flows from operations remained positive but reduced to INR346 million in 1HFY25 (FY24: INR423 million; 1HFY24: INR423 million; FY23: INR315 million), owing to unfavourable changes in working capital. The conversion rate of EBITDA/CFO (pre-tax) remained weak at 36% in 1HFY25 (FY24: 42%). Furthermore, the average net working capital cycle/sales increased to 30% over FY22-1HFY25 compared to 27% over FY19-FY21. However, with the cost-optimisation initiatives and improved cash generation, Ind-Ra expects the free cash flow to improve in the medium term. An improvement in working capital efficiency and EBITDA/pre-tax CFO conversion will remain a key rating monitorable.

Rating Sensitivities

Positive: Future developments that could, individually or collectively, lead to a positive rating action are as follows:
- a significant improvement in pre-tax CFO/EBITDA in line with industry average;
- continued healthy financial performance, leading to a reduction in the net leverage reducing below 2.5x, on sustained basis.

Negative: Future developments that could, individually or collectively, lead to a negative rating action are as follows:
- a lower-than-expected improvement in the scale of operations and a decline in EBITDA margins,
- a weaker-than-expected EBITDA/CFO pre-tax conversion and/or large debt-funded acquisitions, leading to the net leverage exceeding 2.5x, on a sustained basis.

Any Other Information

Merger with Viyash Life Sciences Pvt Ltd: Ind-Ra believes the proposed merger of SSL and Viyash Life Sciences Private Limited will create a stronger business profile than standalone SSL. Management expects the merger to significantly increase operational scale and bring various synergies, with completion anticipated in 10-12 months, pending approvals. The merger will enhance R&D capabilities, manufacturing capacity, and supply chain. Ind-Ra expects the combined entity to have a significantly higher manufacturing capacity, a larger R&D team, more United States Food and Drug Administration-approved facilities, and greater new product filing potential. The merged entity is likely to have reported sales of INR14.6 billion and EBITDA of INR2.1 billion, with net leverage of 1.4x based on 1HFY25 financials. Ind-Ra will monitor regulatory approvals, and the business profile post the merger.

Weak Standalone Credit Profile: On a standalone basis, the company reported revenue of INR1,685 million in FY24 (FY23: INR2,227 billion) and incurred operating loss of INR266.6 million (loss of INR253.7 million). However, Ind-Ra derives comfort from the strong linkages and integrated treasury operations between SSL and its subsidiaries, which are likely to support cash flow fungibility within the group and SSL's debt servicing requirements. Furthermore, SSL has

INR350 million of fund-based working capital limits to support its liquidity position, the average month-end utilisation of which was 55% during the 12 months ended December 2024.

About the Company

Incorporated in 1985, SSL manufactures animal APIs and veterinary formulations and bio-analytical services. Until September 2017, SSL used to manufacture human APIs which was later discontinued. SSL manufactures veterinary APIs and formulation in AAHL and offers analytical services to the pharmaceutical industry through another wholly-owned subsidiary, Sequent Research Limited.

Key Financial Indicators

Particulars (Consolidated)	1HFY25	FY24	FY23
Revenue (INR million)	7,588.6	13,663.0	14,209.1
EBITDA (post ESOP) (INR million)	792.4	692.3	287.4
EBITDA margin (%)	10.4	5.07	2.02
Gross interest coverage (x)	2.58	1.44	0.81
Net leverage (x)	2.62*	6.07	13.99
Source: SSL; Ind-Ra *Annualised			

Particulars (Standalone)	1HFY25	FY24	FY23
Revenue (INR million)	997.6	1,685.2	2,226.9
EBITDA (Post ESOP) (INR million)	-40.8	-266.6	-253.7
EBITDA margin (%)	-4.1	-15.8	-11.4
Gross interest coverage (x)	NM	NM	NM
Net leverage (x)	NM	NM	NM
Source: SSL; Ind-Ra NM – not meaningful			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Rating/Outlook	Historical Rating/Outlook/Rating Watch			
				2 November 2023	22 September 2023	4 August 2022	15 June 2021
Issuer rating	Long-term	-	-	-	WD	IND A+/Stable	IND A+/Positive
Non-fund-based working capital limit	Short-term	INR50	-	WD	-	IND A1+	IND A1+
Fund-based working capital limit	Long-term/Short-term	INR350	IND A/Positive/IND A1	IND A/Negative/IND A1	-	IND A+/Stable/IND A1+	IND A+/Positive

Bank wise Facilities Details

The details are as reported by the issuer as on (31 Jan 2025)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	ICICI Bank	Fund Based Working Capital Limit	350	IND A/Positive/IND A1

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limit	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Contact

Primary Analyst
Ruchika Agarwal
Senior Analyst
India Ratings and Research Pvt Ltd
36 Urban Center, Level 4,Road no.36, Jubilee Hills, Hyderabad - 500 033, India
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Nishith Sanghvi
Associate Director
022 4000 1712

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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