

May 20, 2024

To,

**BSE Limited**

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

**National Stock Exchange of India Limited**

Listing Department  
Exchange Plaza, Bandra-Kurla Complex,  
Bandra (East),  
Mumbai – 400 051

Scrip code: 512529

Symbol: SEQUENT

**Subject: Intimation under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Earnings Call Transcript for the quarter and Year ended March 31, 2024**

Dear Sir/ Madam,

Pursuant to Regulation 30(6) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Earnings Call Transcript pertaining to the Audited Financial Results of the Company for the quarter and year ended March 31, 2024.

The same is also available on the Company's website at <https://www.sequent.in/pdf/financial/2023-2024/Sequent-Earnings-16May-2024.pdf>

Kindly take the same on your record.

Yours faithfully,

For **Sequent Scientific Limited**

**Phillip Trott**

**Company Secretary & Compliance Officer**  
**Membership No. F-7403**

SeQuent Scientific Limited

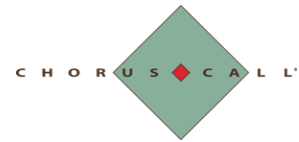
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“Sequent Scientific Limited  
Q4 FY 2024 Earnings Conference Call”  
May 16, 2024



**MANAGEMENT: MR. RAJARAM NARAYANAN – MANAGING DIRECTOR –  
SEQUENT SCIENTIFIC LIMITED  
MR. SAURAV BHALA – CHIEF FINANCIAL OFFICER –  
SEQUENT SCIENTIFIC LIMITED  
MR. ABHISHEK SINGHAL – HEAD OF INVESTOR  
RELATIONS – SEQUENT SCIENTIFIC LIMITED**

**Moderator:** Ladies and gentlemen, good day, and welcome to the SeQuent Scientific Limited Q4 and FY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

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

**Abhishek:** Very good morning and thank you for joining us today for SeQuent Scientific's Earnings Conference Call for the Fourth Quarter and Full Year Ended Financial Year 2024. Today, we will have with us Rajaram, SeQuent's Managing Director; and Saurav, 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 stock exchange 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 you have any further questions, please feel free to reach out to Investor Relations team.

I now hand over the call to Rajaram to make the opening comments.

**Rajaram:** Thank you, Abhishek. Good morning, everyone. A warm welcome to all of you on the call for the quarter 4 and financial year '23/'24 Earnings Call. Joining me on this call is Mr. Saurav Bhala, our Chief Financial Officer.

Before I move on to the performance for this quarter, I would like to extend my heartfelt thanks to Mr. Sharat Narasapur, our former Joint Managing Director, who has moved on from his role at SeQuent. His contributions to the company have been invaluable, and we thank him for his service. Sharat will, of course, continue on the Board of our subsidiary, Alivira Animal Health Limited, as a Non-Executive Director. I also take the opportunity to welcome Mr. Vedprakash as Executive Director on the Board of SeQuent, responsible for API operations.

Coming to the performance for this quarter. I'm really pleased to share that we continue to progress well on the transformation journey that we have embarked upon last year. In the last couple of quarters, we have seen the results of our efforts reflect in the financial performance of the company.

In quarter 4, our EBITDA pre-ESOP cost came in at INR411 million, which is the highest in the last 12 quarters. Our EBITDA margin pre-ESOP cost for the quarter stood at 11.4%, which is in line, in fact, slightly ahead of our guidance and the target of exiting the year at double-digit margins.

Even on the revenue side, if we adjust for some of the discontinued operations in Europe, and the current currency accounting impact in Turkey, our sales for the quarter could be considered to have been grown at 6% on a year-on-year basis in rupees terms and 11.4% year-on-year in constant currency terms.

I would really like to take this opportunity to thank all our employees and teams across and our partners who have worked really hard to make these results come alive for us and set us on the path of growth. With several optimization initiatives implemented over the last few quarters, we are now confident of accelerating our efforts towards higher growth in the coming year.

The macro environment is very important for us as we operate in multiple markets. While there is some volatility on account of inflation and currency issues in some pockets, there has been also some uptick in demand across the board. January to March typically see some seasonality impact on a year-on basis, but we've seen encouraging results from our European business.

And in Turkey, where we are one of the leading formulation players, while the inflation remains at elevated levels of over 60%, the government in Turkey has taken several actions, including rate hikes. While we see some early signs of a stable currency going ahead, we would need to remain very agile.

While Saurav will talk in detail on Q4 and full year financials, let me share some highlights of our overall results and also give you a sense of the direction going ahead. Our overall revenues in the quarter grew about 10% sequentially. On a year-on-year basis, the revenue declined by 1.5%, mainly on accounts of the higher base that we had in quarter 4, last year. And it also includes some of the discontinued businesses in our base. However, adjusted for the impact of discontinued business, as well as some of the currency accounting adjustments in Turkey, our quarter 4 revenues have grown by 6% year-on-year in reported terms and 11.4% in constant currency.

Starting with the European operations, our conscious efforts to position ourselves towards higher growth and higher-margin businesses, combined with improving demand sentiment and range-bound inflation, we have delivered another strong quarter in Europe.

The January to March quarter typically see some seasonality impacts, but our European operations have grown 7.9% on a year-on-year basis for the quarter. Our margins there, too, have benefited from a favourable business mix and continue to expand. Our priority is now firmly on driving growth in this market through further geographical expansion, innovative partnership arrangements and new product launches.

In Turkey, I'm pleased to share that the various decisive price and incentive actions that we have taken since last year, both in June and in January, have yielded very positive results and are reflecting in the quarter's performance. Turkey is one of the leading markets in the world for animal health. And we are committed towards not just maintaining, but also investing and strengthening our presence there and gaining market share.

By leveraging our inherent strength in that market in terms of our field force strong competitive positioning, we continue to take proactive measures on further price intervention opportunities and cost optimization. Our priorities in Turkey for the upcoming quarters, is to drive higher volume growth as the demand situation starts to normalize. Our India formulations business has continued to do well on the product launches that we have had recently and the expansion that we have undertaken, evidenced by a 9% year-on-year growth that we delivered in quarter 4. This

is despite a short-term non-availability of a key distribution product, which we expect to be reintroduced soon.

During the quarter, we also launched 3 brands in the market, which aided revenue growth. Eventually, like I said earlier, Jan to March tends to be a softer quarter due to seasonality. However, as I have mentioned, India is a strategic market for us, and we continue to remain excited by its growth prospects. To that effect, we have initiated large-scale business expansion plan for the India formulations business, the results of which will be visible in the coming quarters. Our priority in India is to achieve greater scale through this expansion.

Coming to our API business. This has been a very strong quarter. In quarter 4, FY '24, we received and executed most of the regulated market orders that were expected and thereby resulting in a strong sequential growth of 39% and also a 2% year-on-year growth. I'm optimistic, looking at our current order book and our stable regulated market orders coming in through also allow us to be selective while participating in growth opportunities in some of the more price-sensitive markets.

On the back of the various manufacturing and procurement, revamp initiatives we have implemented through the last few quarters, we continue to see a marked improvement in gross margins and expect to see the current trajectory to continue into quarter 1. More importantly, on the margin front, our API business stands to benefit from the annualization of savings of all the initiatives that we have implemented at various points last year.

Our priority for the upcoming year is to drive growth in the regulated market business through targeted engagements with our customers and also accelerate the backward integration of some of our front-end formulations using the API facilities that we have. We have, also, successfully completed audits from WHO and many other global customers. This will enhance our credibility as a preferred supplier.

Before I hand over to Saurav, there are three areas I'd like to emphasize. The first is growth. Having completed the reshaping of our portfolio and discontinued some product lines in our formulation business, we have set the base for high growth and importantly, quality growth.

Our expansion plans have commenced in quarter 4 of the last financial year, especially in India, and this will help us accelerate the top line. Second, on profitability. We are pleased to deliver in line with what we had guided. And in quarter 4, we delivered on our margin commitment of exiting FY '24 at double-digit margins. This is, of course, attributable to various operational and cost excellent actions we have taken as well as a superior portfolio mix.

That said, we expect further benefits to accrue. And if the demand were to pick up as well, the next set of cost optimization initiatives, that we have set in to motion internally, will benefit us. During the quarter, our EBITDA margin pre-ESOP cost have expanded by 220 bps quarter-on-quarter to 11.4% and 790 bps year-on-year.

The third is the area of business development and M&A. We believe that the animal health sector is in an exciting and dynamic phase as can be seen from some of the multiyear contracts that large global innovators are entering in with Indian as well as global players. On the companion

animal side, there is a growing focus on pet care and we are looking out for opportunities in our strategic markets such as India and Brazil.

On the API front the generalization and outsourcing of new drugs over the next few years combined with the need for innovators to diversify the supply chain creates an excellent growth opportunity for us to play into. And in order to capture these opportunities we would be looking to augment our capabilities to build a stronger R&D base and manufacturing competitiveness.

I will now hand it over to Saurav for more details on the financial report.

**Saurav Bhala:**

Thank you, Rajaram. Good morning, everyone. It's my pleasure to be here today and share some key insights into the financial performance of our company for quarter 4 and financial year 23-24 respectively.

Starting with quarter 4 financial year '24 highlights. Our total revenue and EBITDA pre-ESOP cost for the quarter stands at INR3,612 million and INR411 million respectively. Formulation business contributed INR2,476 million which is about 69% of the total sales. European operations delivered strong growth driven by our strategic actions focused on overall portfolio reshaping and despite price increases.

Europe clocked a revenue of INR1,236 million. Emerging markets delivered a revenue of INR1,007 million and our Indian formulation business delivered a revenue of INR232 million. The API business contributed INR959 million which is 27% of the top line in this quarter. I'm happy to share that our gross margin has improved by 660 basis points that is from 39.5% in quarter 4 financial year '23 to 46.1% in quarter 4 financial year '24.

This increase is driven by various strategic actions taken over the last quarters which includes sales mix optimization, various operational excellence initiatives and a very well executed price increase across geographies we operate in. Through focused initiatives aimed at optimizing our overall cost structure and which remains to be a key focus area for us has enhanced our operational efficiencies and also helped us successfully achieve a notable reduction in our overall operating expenses. Y-o-Y savings is about INR65 million, that is from INR1,321 million in quarter 4 financial year '23 to INR1,256 million in quarter 4 financial year '24.

The above measures have resulted in significant improvement in our EBITDA margins. Y-o-Y, the improvement is about 790 basis points that is from 3.4% in quarter 4 financial year '23 to 11.4% in quarter 4 financial year '24%.

Now I move on to overall year highlights that is the highlight of financial year '23-24. Our total revenue and EBITDA pre-ESOP costs for the financial year is INR13,697 million and INR1,068 million respectively. Our formulation business contributed to INR9,997 million and API business contributed INR3,260 million to our top line..

Overall, our EBITDA has improved by 250 basis points that is from 5.3% in financial year '23 to 7.8% in financial year '24. Highlighting some of the items which need some explanation. In exceptional items, you will see expense book in this current quarter which is primarily on account of the consultancy fees we gave to our partners for the cost optimization initiatives the

impact of which has been very significant in improving our operational efficiencies and that will help us improving our base further.

And there were some writing also on account of our Germany operations where earlier we have provided, but we were able to liquidate various assets and some writings has happened on account of that. In other income during the quarter company also realized a gain of INR22 million on transfer of leasehold rights in one of our Ambernath land which was not a very operative asset. So we liquidated that.

Net monetary loss on hyperinflation economy which is Turkey is shown under IndAS 29 adjustment which continues because the situation in Turkey. Turkey is amongst one of the 3 or 4 countries in hyperinflation as of now, so that still continues. Our working capital stands at INR4,201 million as on March '24 as compared to INR4,354 million as of March '23.

Net debt as on date, as on March 31, '24, is INR3,789 million against INR3,654 million in March '23. Net debt-to-EBITDA ratio has seen an improvement and which stands at 3.55 as on March '24 versus 4.70 in March '23. These are the key highlights from my side. I thank you all for your continued support and may I request a forum to be opened for any questions now.

**Moderator:** Thank you very much. We will now begin the question and answer session. Our first question is from the line of Vilina Jain who is an individual investor. Please go ahead.

**Vilina Jain:** My first question is on the API business. So it is good to see that our API business revenue is closer to INR100 crores quarterly run rate. What has been the driver of sequential revenue growth? And can you maintain this momentum in the coming financial year? Also, are there any new contracts that you have received in your API business which can materially add to your sales?

**Rajaram:** Thank you, Vilina. Yes, first of all, I think it's good to see the API business accelerating. I think we've delivered over INR90 crores in this quarter and we do expect that we will begin to come closer to the INR100 crores run rate.

But as you know that the API business is a B2B business and if there are going to be some variations across different quarters depending on the stocking levels that our customers may have as well as what is the success of their end products in the market, but directionally, I think I can say that we are beginning to see acceleration in our API business.

So now what has gone behind this, I think a couple of reasons. One we are a very strong regulated markets player nearly 70% of our business comes from markets which have -- which are from Europe or the US and in these kinds of customers tend to give a lot of premium and reference for suppliers who are quality suppliers as well as the developments which we do on our products in partnership with some of these customers.

So that has really contributed quite a bit to the orders which we have got for the quarter which is gone by as well as we expect that these relationships and these preferences from these customers should help us going ahead.

Any new -- the second part of the question on do we have any new contracts. Yes, we are expanding our customer base. I think we are having new customers who have joined our current set of customers who we cater to with our products. Some of the older contracts, which we had signed, which are getting commercialized as well as we speak in this year. And we also have, of course, a lot of conversations going on. I cannot specifically disclose any one contract or two contracts, obviously, for confidentiality reasons right now.

**Vilina Jain:** Got it. And secondly, gross margin has improved nearly by 100 basis points on a Q-o-Q basis. What are the drivers of the same? And by when can we get back to the historical 50% margin?

**Rajaram:** So I think gross margin for us is a combination of three or four things, which Saurav alluded to some time ago. On the API front, it is on account of, one, the initiatives which we have undertaken last year with project called Project Pragati, which involves cost optimization, operational efficiency, procurement, so it's a comprehensive program, which was undertaken. And that's one driver of improved margins.

The second driver of improved margins on our formulations business has been the reshaping of the portfolio itself. We have driven business growth with -- on portfolio, which are high growth, higher margins, and at the same time, we have also discontinued less attractive segments that we participate in. So that's really the two main drivers for this.

And I think the third one would be our whole cost optimization efforts that we have undertaken as well. Yes, that's the mix. Now the other part of the question is, do we get back to 50% historical levels. I can't give you any forward guidance on this. I think we've continued to give you guidance on our EBITDA margins pre-ESOP that we would exit last year at a double-digit margin, which we have. And directionally, we are looking at that improvement going forward. Of course, the initiatives that we have when you annualize them from last year should see an improvement in our gross margin.

**Moderator:** The next question is from the line of Naman, who is an Individual Investor.

**Naman:** First question pertains to the EBITDA margin, and I'm happy to see that you have touched the double-digit guided margins, which we are given. Can we expect to sustain these margins for the next financial year on a full year basis? And by when can we reach the mid-teens margins, which we have indicated in the earlier calls?

**Saurav Bhala:** Thanks for the question. We believe, based on the projects that we are undertaking and the structural changes we had done, the margin of Q4 should be sustainable next year as well. Only add-on would be there are some quarterly fluctuations because of the season and production exchanges, which will happen. But the margin, to our mind, has continued. And we are working further to improve it. So our expectation is from low-teens to the mid-teens is where the journey is, which we are taking ahead.

**Naman:** And secondly, on the overall outlook of the business as in over next few the years, over the 3-year period, how are we seeing a top line growth on a guidance basis? And lastly, on the debt side, that when can we expect the debt to start coming down? And what levels of debt-to-EBITDA are we comfortable as an organization?



**Rajaram:** So I'll take the first part on the next 2 to 3 years. Saurav just said, we do expect next year our EBITDA margins to be the low to mid-teen range in terms of what we will exit. And we hope that we're able to do better. But that's, of course, what is the band in which we would like to give the guidance right now.

In terms of how we are going ahead, we have said that over a 3-year period, we would like to come towards the high teens range in terms of EBITDA margin, and we would like to grow our top line in double digits for the next -- on a 3-year basis. That's what as far as our top line and our margin line is concerned. Now coming on to the question on debt, do you want to give some...

**Saurav Bhala:** Yes. So on debt, the levels, we don't see decreasing very immediately because as you understand, the businesses are expected to grow strongly. We are looking at a lot of -- so debt would be kind of funded for two things. One is to fund the working capital increase with the business growth, there are some requirements on that.

And also, as Raja has already mentioned, we are looking at various opportunities that the market is presenting. So debt, as of now, based on today's projections, we remain to be at the same level. Having said that, debt-to-EBITDA will go down strongly. Even in my initial speech, I have said, already mentioned, last year it was at 4.23x. Now we are at 3.55x. And as the business performance improves with the EBITDA and margin improvement, we see debt-to-EBITDA level going down consistently.

**Moderator:** The next question is from the line of Chintan Chheda from Quest Investment Advisors Private Limited. Please go ahead.

**Chintan Chheda:** Congrats on a good set of numbers. Sir, my first question is related to the API business. So the deworming portfolio, which had gone down during COVID, is that fully recovered? Or there is some more headroom for improvement over there?

**Rajaram:** Do you have any -- do you have a second question? Then I can take it together.

**Chintan Chheda:** Yes. And secondly, sir, if you could just shed some more details about the API portfolio, like what is the filing and development pipeline for us? And thirdly, for this API business, say, from this quarter's base of INR96 crores, right, say over the next three to five years, how should we look at the growth?

**Rajaram:** Okay. Thank you for this. So let me start with the first one, Chintan. Yes, it's been a good set of results. We hope to hold it as we continue with our plan. First on the deworming portfolio, there are different markets where this portfolio exists and we are not seeing any further reduction in the deworming portfolio, which is what seemed to be a trend a little while ago. In fact, we are seeing an uptick happening on the deworming portfolio.

There is, of course, a shift in the kind of markets where the portfolio is growing. And also in the deworming portfolio, there are different sets of molecules. It's not just one. So on a total aggregate basis, this is a portfolio which -- where we are very strong and at the same time, it is also a portfolio which is seeing volume growth.

The other important thing is that we have -- a lot of our cost optimization initiatives have been in this portfolio and those have given us more competitiveness and improved margin, which allows us to expand our volume. So I would say, this is -- from an outlook point of view, this portfolio is a steady portfolio right now.

The second, in terms of our new filings, our typical rate is that we do about three to four every year. Last year, it was a bit backended where we filed more in the last quarter, we did two filings. We expect typically around three to four filings happening every year.

But in terms of the choice of the products that we will file for, we will have a bias towards companion animal products rather than production animal APIs. And we have already with us three to four filings, which will happen next year. Most of it are in companion animals. And that's the area where we believe that there is an opportunity for faster and more sustainable growth.

The third question on the API volume for the next three to five years, I don't think I can give you specifics on where the INR96 crores will go. I think on an overall basis, it is fair to say that a three-digit number per quarter is what we certainly aspire to have consistently in the next 12 to 24 months. But beyond that, it would, of course, depend on how fast we are able to commercialize some of the new products which we have launched and are planning to launch.

And in the API business, the first one or two years of the launch tends to be fairly muted in terms of volumes as the validation get completed, etcetera, and then the acceleration starts. It will also depend, of course, a bit on how the pricing environment is.

We would hold on to volumes, but if the pricing environment remains what it is right now, which is the pressures continue, then of course you could have volume growth and a bit of lower price growth. So ballpark, I would say that a three-digit per quarter number is what we are aspiring for in the next 12 to 24 months average.

**Chintan Chheda:** Perfect. Got that. And secondly, on the ESOP side, so are we looking to issue any new ESOPs? And for the next couple of years, how should we look at this cost?

**Rajaram:** So on the -- whether we've got to issue -- see, we constantly keep looking at issuing ESOPs to our employees. But there is an overall pool, which is reasonably sort of fixed. So we don't expect the cost impact to be anything dramatic or additional from what we have. But maybe Saurav can tell us a bit around how do we see the next two to three years? It is a declining trend based on its impact.

**Saurav Bhala:** Yes. So as Raja has already mentioned, ESOP generally, the impact is very high in initial few years, which we have seen in the last couple of years. And since last two quarters, the trend has already, if you see, has started going down. We believe that based on our current calculation, yes, the trend continues and our ESOP cost keeps on coming down.

Having said that, one thing to be kept in mind is the way business is growing, we would look to increase our management strength and add on to some leadership positions. If that happens -- as and when that happens, there will be some ESOP impact to the extent.

**Moderator:** The next question is from the line of Divyanshi, who's an individual investor. Please go ahead.

**Divyanshi:** So I have two questions. Firstly, the Europe revenues are back to single-digit growth after the last two quarters of strong growth. So what is the reason behind the same? And what is the growth rate that you're targeting for overall Europe business over the next couple of years? That's the first. And second, you've indicated in your earlier calls that you're looking at strategic M&A. So could you provide an update on the same? Would we have any M&A activity in the near term?

**Rajaram:** So the first question on Europe. In fact, our Europe business has started. It's, in fact, performing better than it was. And we have begun to see strong growth in Europe. If you remove some of the portfolio decisions which we have taken last year, then our growth would, in fact, be closer to double digit as we go ahead. Europe continues to be strong. Spain is performing well. Markets in Belgium, Netherlands continue to do well.

So going ahead, we certainly look for the European business to be always in the higher single digit, early double digit kind of growth unless, of course, there are any surprises. But right now, our portfolio is strong and building on that.

The second part of it in terms -- is to remember that in Europe has been a big contributor to our margin improvement profile. And it went through a serious challenge post the Ukraine war had started. But now things have stabilized. And therefore, we are seeing that flow into our results of this year. And I think in the coming financial year, we should begin to see even better performance in Europe.

The second part of it on strategic M&A, we are looking for different opportunities to expand our business. Some of it is around licensing. Some of it is around strategic partnerships. M&A is part of our growth plan. We are constantly evaluating targets, including some in India.

And as far as the nature of targets are concerned, we are open both to targets and formulations as well as any opportunity on the API side, which allows us to -- which is complementary to our business in terms of supporting us for, for example, in the area of acceleration of R&D or acceleration of manufacturing synergies. And so that's something we are actively looking at. But of course, we will need to make any such move very, very responsibly. It has to be something that is accretive to our business. And this company has been built on acquisitions in the past, and that is an important part of our journey so far. So it continues to remain as our priority.

**Moderator:** The next question is from the line of Rishika Mehra, who is an individual investor.

**Rishika Mehra:** I have two sets of questions. One is on the emerging market, that the business has been weak since last few quarters. So when do we expect growth to come back in the business? And is there any update regarding the pricing and the currency situation in Turkey, that being one? And the second one is on the India business that we've seen some growth year-on-year in quarter four. However, it has been down sequentially? So when do we expect the revival in the business? What kind of growth are we targeting for India business? And what would be the drivers for this year? That's it.

**Rajaram:**

Thank you for this question. On emerging markets, it's a large set of countries. So it's a bit -- we would have to deconstruct it in terms of our big markets and in terms of the smaller markets. If you look at -- and I'll combine the first and the second question because it involves Turkey. So one of our big markets in emerging markets is Turkey. In Turkey, we have seen some stabilization in terms of the economic policies which we have put in, etcetera. And therefore, even though there has been high inflation, our actions in terms of price increase, in terms of portfolio optimization and also stepping up efforts for volume growth have helped us grow the Turkey business, and there has been a significant improvement in terms of margin as well.

Of course, in Turkey, it makes no sense to only talk about top line growth because the inflation itself is at 60% year-on-year. So suffice to say that we are able to take our pricing increases to completely compensate for any inflation. And therefore, that helps us keep the margin in place as well as the top line. And the reason we are able to do that in Turkey is because we have a very strong competitive position in terms of market presence.

I mean our portfolio, the fact that we have one of the large teams over there, we are in the top 5 players over there as far as the production animal segment is concerned. So in Turkey, pricing is one of the drivers right now to compensate for inflation. But at the same time, we are also looking at expansion in volumes.

The second part of the emerging markets is, a big country for us, is Brazil. After 3 or 4 years of very strong performance earlier, Brazil has seen pressures. And some of that is a bit short term because our business, which is there in Brazil, has a component of contracts and tenders. And sometimes you get a tender, you lose the tender. And those kind of variations have impacted some of the aggregates in emerging market results.

But one important thing, which has happened in emerging markets, is really the Middle East, North Africa segment, countries like Egypt, etcetera, where we have faced a currency challenge in recent times. It's not that there is an order challenge in terms of business or sales, but releasing money from the Central Bank to be able to pay the suppliers has been a bit difficult for all the importers. So we're seeing some pressure there as well in emerging markets.

But the way to look at emerging markets is to take them as 1 large bundle and begin to accelerate wherever there's an opportunity and derisk ourselves when we go through these kind of challenges. And therefore, I would say that emerging markets will be a mix for a while. And the fact that the larger market sector, Turkey etcetera, for us are growing, we'll make sure that at an aggregate level, we will do well.

The India business, which is the third question which you have asked, is very strategic and important to us. India has a large population of production animals, which is cattle and dairy. And we are a midsized player in India, and therefore, the opportunity is for us to really grow very fast here. We have grown well last year. As you know, we have 2 parts of our business: one which we distribute for one of the large internationals, and we also have a part of the business which we manufacture our own brands.

On the distribution side of the business, we had a couple of supply challenges from the principal, and that is hopefully getting restored and we should continue to maintain that momentum. On our own brand, we are, of course, growing very fast, well ahead of the market in double digits. And going ahead, therefore, we should expect that the India business should be a double-digit growth business for us.

**Moderator:** The next question is from the line of Bharat Sheth from Quest Investment Advisors Private Limited.

**Bharat Sheth:** Congratulations on excellent turn around. okay. Secondly, I mean, your overall 3 years perspective, what you have said. So first of all, I mean, API, we are operating at what capacity API business? And if we have to dissect, I mean API, say, last year, we did around INR325 crores if we continue to maintain run rate of around INR95 crores to INR100 crores. So I understand that our first -- I mean, growth will be in the first year itself largely then relatively in second and third year, it will be kind of a muted growth in API business. Is that fair understanding?

**Rajaram:** Can you just complete your question, Mr. Bharat Sheth. The first one is on API capacity, which you asked about how much are we utilizing. I didn't get the question on your -- very clearly on the numbers you are talking of -- can you just repeat the second part of your question?

**Bharat Sheth:** On API last year, I mean, in FY '24, we did around INR325 crores kind of a run rate annualized. And if we take around INR95 crores to INR100 crores quarterly run rate then it was out somewhere a INR400 crores kind of a thing in the '25 itself. So then first that, I believe that the growth will be muted kind of a growth? Or if you can give a little more color? And second thing, in API, how do we plan to improve the EBITDA margin? So we may get some lower-end margin and will keep on increasing higher-end products, whichever generate higher end margin?

**Rajaram:** Thank you for your questions. So the first one, in terms of API capacity utilization. We are today at about 70% to 75% is what we use. And that -- we have capacity with us, as for our current portfolio, is something that we largely have at least for another year. We do have plans to reshape some of this capacity. So it's not necessarily increasing the capacity, but it is also about using the right product mix in this. And our project in terms of manufacturing excellence has also allowed us to get more out of the capacity that we have.

So in terms of how we look at the year ahead, yes, last year was, of course, a difficult year. I would not annualize the INR95 crores, INR100 crores straight away into next year and say that it to be INR400 crores. I think that's closer to what we want to reach when we exit the year. So expectation is certainly that we should be ballpark anywhere between INR80 crores to INR100 crores average per quarter. Some quarters will be INR100 crores, some quarters may be closer to INR80 crores, INR82 crores. That's because this is the phase in which we are also introducing new products. And then going ahead, of course, we certainly expect to be at the INR100 crores plus range from the following year.

Then coming on to the way in which we improve EBITDA margins. There are 2, 3 levers for that. The first is, of course, at the gross margin level itself. And there, there is -- there are

initiatives in terms of reduction of some of our costs with CI, cost improvement program and also in terms of some optimization efforts that we do in procurement. The second area is really enough product mix, which we have. Because that is an important part as we begin to get more and more confirmation of businesses from the regulated markets, which is where our historical sort of advantage has been and strength has been.

So as that mix improves, we would tend to get customers to value U.S. FDA production and the certified production from our side. We should get the product mix and regulated market is the second way in which we include our margin. And third, of course, is that scale itself gets you better margins as we begin to expand our production capacity volumes over there. And I think Saurav will talk to you about cost optimization. Yes.

**Bharat Sheth:**

Okay. Great, sir. Sir is that fair understanding over three period our revenue mix will be more tended toward India, which is one of the largest, I mean, focused market and regulated market on the formulation side. Because emerging market, we keep on taking some kind of a tailwind. So it tends to have muted kind of growth in our aspiration to grow double-digit over the next 3 years. Is that fair understanding?

**Rajaram:**

I think there are 3 -- you split them into 3 areas. One is the regulated markets for the API business is our focus. But we must remember that the emerging markets are very fast-growing end product markets, for many marginals. And therefore, those markets also do provide an opportunity. We need to be competitive in those markets and some products. And when you have a leverage because of your regulated market supplies, you can be competitive in the emerging markets as well. So it's not a market that we're going to ignore. It's just that we will not be selling at any kind of price and compete just for that. Margins are going to be important.

The second part of it is that India is important for us from a domestic formulation business. It is something that we are expanding. It's a big market. It is fairly underpenetrated in terms of medication for animals. And we also have a good advantage in terms of having overseas formulation facilities. So unlike many other generic players, we are able to import fast.

Recently, we launched 3 products from international range, which was there in Turkey and Spain, and we've brought them into India. So we have some advantage of bringing it at speed and introducing at India. And the European business, of course, is an important business. So it's a combination of all our presence in regulated markets and India gives us the leverage to be able to compete in emerging markets as well.

That's probably the good part of our business is that we're dependent on only the emerging markets, which even though they may have a high demand, have some risks at sometimes in currency, et cetera.

**Bharat Sheth:**

Okay. Sir, any color on our entry into the U.S. formulation market?

**Rajaram:**

I think the U.S. formulation piece, as we have said before, is on hold for us. We will look at our strategic priorities. As I said earlier, we are looking at M&A. We are looking at business development. And we hope that in this 6 to 9 months, we are able to make some more choices around where we want to grow for fresh investment. At this point in time, it's on hold. Although

like we have said before, development part of it is largely complete and we hold the tech packs, et cetera, are all fully available with us to be able to expand.

**Bharat Sheth:** Okay. The last question for you. Understand, I mean, however, whatever project you have taken, I mean, for restructuring and for growing in a better way, is now all over. So any exceptional further do we expect like we had book accrual of women expert advisory fee for API given the manufacturing. So is there any kind of further any one-off thing do we expect or more mostly, it is over?

**Rajaram:** Well, there's no planned one-off as of now, yes. Because I think most restructuring is sort of the, is that right? Saurav, you want to?

**Saurav Bhala:** Yes. And just to add, Bharatji, we believe the expense part is already fully captured. The benefit would keep on accruing and keep on increasing. So that would be a positive surprise, hopefully.

**Bharat Sheth:** On the debt, sir, can you give some color last -- I mean, quarter we said that we mean update for a whole NTT as the one and we -- Central Bank also, we did some restructuring in the borrowing. So now how do we see that cost of borrowing going ahead?

**Saurav Bhala:** Borrowing, as I've already indicated in my earlier slide, we expect it to be at the level. But the debt-to-EBITDA level and other metrics will keep on improving with our EBITDA improving, is what we forecast as of now.

**Bharat Sheth:** And what is the cost of borrowing at the moment? And how do we see it going ahead?

**Rajaram:** Sorry?

**Bharat Sheth:** Cost of borrowing? So interest rate that we are exiting growing?

**Saurav Bhala:** Probably all those questions because -- can be taken offline also.

**Moderator:** We will take the last question from the line of Kaustav Bubna from BMSPL Capital. Please go ahead.

**Kaustav Bubna:** So basically, I wanted to understand when you talk about mergers and acquisitions, you already have around INR400 crores, INR500 crores of debt on your balance sheet. So how do you look at this leverage angle when you consider mergers and acquisitions? Because our interest costs are pretty high. It's not really helping our profitability when we are making acquisitions because we're taking on debt to do this. So given where we are right now, how do you look at mergers and acquisitions?

**Rajaram:** So look, if there is an opportunity, I think we -- there are different ways of doing that. We would not lose out on a really good opportunity. We do have a very strong prime promoter with us, who is always encouraging us to look at any kind of growth. And therefore, there are different ways of doing it if we ever come to that stage.

I think -- but we are not averse to getting a strong business development opportunity which comes in. As I said very clearly, it will be something very responsible and more importantly,

something which is accretive. And we are supported well in terms of our primary promoter on this.

**Kaustav Bubna:** So just last question on this. When you talk about double-digit growth aspirations over the last -- over the next three years, does that include are you factoring in acquisitions or acquisitions will be on top of that? Are you talking about organic double-digit growth from here? Or are you talking about...

**Rajaram:** Yes. We're only talking organic right now because -- Kaustav, because we don't have -- we don't have close visibility on the inorganic part of it. It's just that we continue to scan and we continue to look at accretive opportunities. But right now, everything that we've spoken about is, call it, purely on the organic front.

**Moderator:** As there are no further questions, I would now like to hand the conference over to the management for closing comments.

**Rajaram:** Thank you very much. Thank you for being on this call. It is, as I've said before and we've shared, a good quarter for us. It is encouraging the way our efforts are now playing out. We do hope to sustain going ahead. And our plans currently give us the confidence that the guidance that we have given, we will be able to hold on and deliver on that. Thank you very much for being on this call.

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