

February 22, 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 nine months ended December 31, 2023**

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 Unaudited Financial Results of the Company for the quarter and nine months ended December 31, 2023.

The same is also available on the Company's website at <https://sequent.in/pdf/financial/2023-2024/Sequent%20Scientific-Earnings-Feb15-2024.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  
Q3 FY 2024 Earnings Conference Call”  
February 15, 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 SeQuent Scientific Limited Q3 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 a touch-tone 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 Singhal:** Thank you, Ria. A very good afternoon, and thank you for joining us today for SeQuent Scientific's Earnings Conference Call for the Third Quarter and 9 months ended financial year 2024.

Today, we have with us Mr. Rajaram Narayanan, SeQuent's Managing Director; and Mr. Saurav Bhala, 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 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 the Investor Relations team.

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

**Rajaram Narayanan:** Thank you, Abhishek. Good afternoon, everyone, and a very warm welcome to everyone on the call for the quarter 3 and 9-month earnings for the financial year '23-24. This is the first call of the new year, and I wish you all a very happy new year and a good start to 2024. Joining me on this call is Mr. Saurav Bhala, our Chief Financial Officer.

Now moving on to the performance of this quarter. Over the last few earnings calls, I have emphasized how we have been undertaking multiple initiatives towards making our business more competitive. I am pleased to share that many of those initiatives, particularly around improving profitability, have now begun to reflect in our financials.

Over the last few calls, I had indicated that we were working towards exiting the year with a double-digit EBITDA margin pre-ESOP costs. and I'm really pleased to share that we continue to improve our margin and the EBITDA margin pre-ESOP costs for this quarter stood at 9.2%. So EBITDA pre-ESOP costs also grew 15% sequentially and 9% on a year-on-year basis for the quarter.

So on the revenue side, however, we've been focusing on building a quality business with high-quality customers and a strong sustainable portfolio. Adjusting for the discontinued operations in Europe and the currency depreciation in Turkey, our sales have grown 1.3% on a quarter-on-quarter basis, if you translate to INR terms, and 2.5% on a constant currency basis. So with now most of the restructuring behind us, we feel confident that the business is ready for acceleration.

Before getting into more specifics on our performance, I would also like to touch upon the macro environment, which is relevant to us as we operate in multiple markets. In most countries, inflation continues to be a worry. And the recent geopolitical events have also made most businesses cautious. And at the same time, we are also seeing central banks and the economic industry intervening very aggressively to stimulate demand. We believe that at such time, companies like ours will have the opportunity to leverage our strong front-end presence and create even a more stronger competitive position in these markets.

As I explained earlier, our industry is in 2 distinct segments. There are medicines for production animals and medicines for companion animals. Over the last few years, the production animal business globally was impacted by high feed costs due to issues relating to water and farm productivity. And this, in turn, impacted the demand for medicines.

On the other hand, the demand for companion animal medicines have remained intact and are growing now as pet adoption, incidence of diseases and lifespan of pets is increasing. We are the leading animal health company from India with a presence across over 100 countries in both regulated and less regulated markets.

Our business is a combination of strength, our formulation business with a front-end presence in key growing animal health markets of the world and supported by a strong API back-end with an established USFDA-approved API facility, supplying primarily animal health APIs.

We have a unique platform in that sense. We believe that our back-end API ops will give us a good base to help us capture the growing and emerging opportunities, which are there in formulation; at the same time, help us supply to some of the largest customers independently while customizing for their requirements.

As mentioned in the last couple of calls, we have taken some decisive structural actions for long-term competitiveness on the back end of our API side as well as the formulation side. We believe that from here on, using a combination of both organic and inorganic opportunities, we will continue to have a unique play into some of the largest markets, adding value to all our stakeholders.

While Saurav will talk in more detail on the quarter 3 and 9-month financials, I'll share with you some highlights of the overall results. Our overall revenues in the quarter came in lower, declining by 5% sequentially and 12% year-on-year. Our formulation business, post the Turkey hyperinflation adjustment, declined 1% sequentially and 3% year-on-year. However, these metrics do not consider the impact of some of the divestments and discontinuation that we have done of our loss-making unprofitable units as well as the adverse translation impact in the currency in Turkey.

So adjusted for this, our total revenues actually grew sequentially 2.5% over quarter 2 FY '24 in constant currency. In some areas, our performance has really picked up. For example, in the performance of our European operations, the sequential growth is at 6.5% and year-on-year performance at 20-plus percent demonstrating the impact of the strategic actions that we

undertook a few years ago like the discontinuation of loss-making operations in Germany and also some smaller sales units elsewhere in Europe.

Demand has been driven by a sharper focus on more attractive and high-growth segments such as gut health, where we are now expanding to many global markets. Operating efficiencies, combined with a considerably stable product mix, have aided our margins in Europe, and this is reflected in the quarter's financial results. With this, we have reason to believe that the next leg of growth in our European operations is underway. In Turkey, the inflation has remained at elevated levels and currency devaluation has continued, although at a more predictable rate.

I'm pleased to share that the decisive price actions we took in June last year have continued to yield positive results, reflecting in this quarter's performance. Turkey is one of the leading markets in the world for animal health, where we are among the top 3 players in the ruminant segment, and we are committed towards strengthening our position.

Turkey is now accelerating new launches and exports. Recently, we launched Tulaject, a generic of injectable tulathromycin in Turkey, and we would be building our portfolio with more launches in the coming year. The India formulation business recently launched 3 new brands from our international portfolio. As I mentioned earlier, India is a priority growth market for us, and we continue to remain excited by the prospects.

In terms of quarter 3, '24 specifically, this was a weaker quarter due to the supply disruption in the availability of one important product, which we distribute, but we expect this to be resolved in the coming quarters as distribution gets restored.

Coming to our API business. We are focusing on quality business and decreasing low-value commodity operations while building competitiveness for long-term customers. We are seeing promising results from the implementation of Project Pragati, a comprehensive cost improvement and commercial excellence program. This has been our second consecutive year of healthy margin expansion in the API segment and we are positive about this program continuing to yield results well into the coming few quarters.

On the demand side, we are seeing customer interest increase in some parts of our portfolio. And in quarter 3, however, the orders were a little muted as for some of the products which we sell to our regulated market customers, the requirements have been postponed from quarter 3 to the current quarter 4. While our revenue performance during quarter 3 was muted, we have seen a marked improvement in gross margin and have visibility towards a much stronger quarter 4.

Before I hand over to Saurav, there are 3 areas I would like to emphasize. The first is growth. Some of our efforts on cost optimization and reshaping of the organization over the last few quarters are now providing us with a very stable, profitable platform to pursue growth opportunities.

These are signs that the demand is improving, and we are confident of our position to benefit from this recovery. We are excited about the growth prospects in our key markets and will continue to focus on growth.

The second important aspect is that of profitability. We are progressing well on our plans to deliver profitability improvement and expect further benefits to accrue with the pickup of demand as well and also the sort of cost optimization initiatives that have been set into motion internally.

During this quarter, our EBITDA margins pre-ESOP costs have expanded by 160 bps quarter-on-quarter to 9.2% and 180 bps year-on-year. We expect to exit the current financial year at double-digit EBITDA margins. On the M&A front, we believe that this is an exciting time to be in the front-end animal health sector as protein consumption in emerging markets is taking off, along with increasing focus on companion animal care.

M&A plays into some of these areas is a key part of our strategy, but it also rests on our API backing capability. One of the most important competitive advantages we see in such a situation will be in the scale of operations. We are seeing new pharma players lined for multiyear upstream opportunities with some API customers.

And in order to participate more meaningfully in the large and attractive opportunity in the animal health care sector and strengthening our position as a truly integrated global admiral health platform, we are looking to further augment our R&D and backward integration capabilities on the API side as well in a way that allows us to move more upstream in the customer value chain.

I now hand over to Saurav Bhala, our CFO, for more details on the financial performance. Thank you. Over to you, Saurav.

**Saurav Bhala:**

Thank you, Raja. Good afternoon, everyone. It's my pleasure to be here today and share insights into the consolidated financial performance of our company. I'll start with Q3 highlights. Our total revenue and EBITDA pre-ESOP cost for the quarter stands at INR3,294 million and INR302 million, respectively.

Formulation business contributed INR2,510 million to the top line with a growth of 5.3% quarter-on-quarter and 25% Y-o-Y in constant currency terms. We have seen continuous growth in our European operations, driven by strategic actions focused on portfolio reshaping. Europe clocked a revenue of INR1,269 million, which is a growth of 6.8% quarter-on-quarter and 13.3% Y-o-Y in constant currency terms.

India formulation business clocked a revenue of INR278 million, which is a growth of 1.7% quarter-on-quarter basis. We faced some headwinds in our emerging market operations, which is primarily due to U.S. dollar availability in those markets and which led to some volume loss and our tender business in Brazil operations also was impacted slightly.

Overall, the emerging market has a growth of 4.6% quarter-on-quarter in constant currency terms. The API business revenue for Q3 financial year '24 is INR690 million, against INR804 million of Q3 financial year '23, which is last year. This is primarily because many of our orders in Q3 current year have shifted to Q4. And whereas in last year, quarter 3 was one of the strongest quarters. So it is just a shift in the quarter. Overall, gross margins have improved by 310 basis points Y-o-Y from 42.1% in Q3 financial year '23 to 45.2% in Q3 financial year '24. The

improvements here are driven by various focused strategic actions, improving the sales mix optimization and a very well-executed price increase across various geographies.

Operating cost optimization is one of the key focus area as Raja has already highlighted, and in that through our focused initiatives for optimizing the cost and as well as enhancing the operational efficiency, we have successfully achieved a notable reduction in our operating expenses of INR116 million Y-o-Y, which is now at so which was at INR1,302 million in Q3 financial year '23 to INR1,186 million in Q3 financial year '24.

EBITDA improvements. So mix of above measures have resulted in significant improvement in our EBITDA margins by 180 basis points on a Y-o-Y basis, which has moved from 7.4% in Q3 financial year '23 to 9.2% in Q3 financial year '24.

Moving on to YTD performance highlights. Our total revenue and EBITDA pre-ESOP costs for the quarter is at INR10,085 million and INR658 million, respectively. Our formulation business contributed INR7,520 million and API business contributed INR2,301 million to the revenue.

Overall, EBITDA has improved by 50 basis points from 6% YTD '23 to 6.5% YTD financial year '24. Also, I would like to comment on few line items for better clarity of all. So in the exceptional item during the quarter, company has accounted for exceptional gain of INR54 million on account of monetization of various assets in our Germany operations, which is going under a restructuring and an exceptional loss of about INR26 million due to a cyber incident, which happened at one of our subsidiaries in Sweden. Other income during the company includes a gain of INR22.98 million on transfer of leasehold rights on our Ambernath land in India.

Net monetary loss on hyperinflation economy continues and the same is on account of hyperinflation-related impact as required by Ind AS 29 for our Turkey operations, which is currently a hyperinflation economy. Exchange loss is primarily on account of Turkish lira depreciation against USD. Again, primarily because of being a hyperinflation economy, the fall is pretty significant.

Those were the highlights. I thank you all for your support. And I request for the forum to be open now for the Q&A. Thank you.

**Moderator:** Thank you very much. First question is from the line of Divyanshi Davi, an individual investor. Please go ahead.

**Divyanshi Davi:** So my first question is on the margin side. Your margins seem to have improved sequentially to 9%. So what are the contributing factors behind the same? And do you see some improvement? I mean, do you see this improvement to be sustainable? And what's the margin improvement on the API or the formulation side?

**Saurav Bhala:** Okay. I'll take that. The margin improvement, as I explained in my opening remarks also, is because of combination of factors starting from our sales mix optimization, which is focused towards high-margin products across geographies followed by various CIP initiatives which we have initiated in our API operation, which is also leading to the margin improvements that is at

gross margin level. And below that, if you see, we have also focused on our overall opex cost optimization. So there is a significant reduction in our opex due to those efforts.

So all this cumulative is making our margin go up. And we believe the current level of margin is sustainable. And we have always been guiding and then also mentioned by Raja earlier in the call, we are looking at ending at double-digit margin towards the year-end. Thank you.

**Rajaram Narayanan:**

I must add over here, the important part to know is that strategically, we are improving the quality of our business, whether it's in terms of API or whether it's in formulations, which really means focusing on high-value customers, high-value products and those which have a more sustainable road map ahead and opting out of wherever possible commodity kind of operations, which tend to put a lot more variability in the business and do not necessarily always stay to our strength. So we will see a quality of business improvement as being the primary driver of margin. Apart from of course the very intensive competitiveness program and cost as well as operations. Yes, thank you.

**Divyanshi Davi:**

Okay. And sir, just a follow-up question. So what's the overall outlook on the revenue and EBITDA margin side for the next year? And so the mid-teen margin that was guided in the earlier calls, would we be able to achieve those?

**Rajaram Narayanan:**

So I think what we have indicated earlier, we'll pretty much hold to that volume on the margin side. We had indicated that we would exit FY '24 more in the area of the double-digit margin. I think we are trending to that. As far as the next year is concerned, we have said that as we move towards the next year, we would like to move more towards an outer side of mid-teens in terms of margins and higher-teens as we go forward for 2 to 3 years.

And that's ballpark the direction in which we are proceeding and our plans are on that line. As far as top line growth is concerned, I think it's going to be a combination of where we are going to different markets and different businesses. So we will see our continuing business, and that's important because we are also discarding some non-profitable or low-margin businesses. I think as continuing business, we should begin to start moving from mid-single digits to early teens before the end of the year. That's the kind of direction which will go.

**Moderator:**

Next question is from the line of Amar from Lucky Investments.

**Amar:**

Sir, number one, you indicated that now you're talking about API as a backward integration for your formulation business. What I understand here is that currently, we don't have any formulation which basically sources API from our own manufacturing. So, if you can elaborate on that. Secondly, when you're guiding for the double-digit margin in the current year exit, this is pre-ESOP or post-ESOP? And thirdly, sir, on an absolute basis, including the discontinued operations, what kind of growth we are targeting for next year?

**Rajaram Narayanan:**

So we'll do one question at a time. So as far as API is concerned, we are not designing for seeding in APIs into our formulation businesses. That's not how we've built the business. The opportunity is there for us as we begin to build the business going ahead. We are seeing that there is some opportunity to both create formulations from our API businesses as well as supply APIs to our existing formulation entity. So this will increase. It's small at this point of time, but that is an



area of growth for us. And it will take some time for that to sort of materialize, but it's an important component of our strategy.

The second part of it, all our margins, which we've been talking on EBITDA basis is really we're talking about EBITDA pre-ESOP. That's a noncash component and ESOP is a part of our structure. And therefore, this guidance that we're giving you is always on EBITDA margins which are pre-ESOP.

And we have in the past indicated to you also on how we expect the ESOP costs to move over the next few years. On the last question on absolute growth including and nonincluding, I think for the immediate period ahead, we think the growth will be in more than single digits. But with the pipeline that we have as well as some of the new launches that we have, I think on a 2 to 3 year framework, we should be looking at early teens to mid-teens kind of a top line growth, for sure.

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

**Bharat Sheth:** Congratulation to you and your team for successfully turning around the business. Sir, if I put it, I mean, my question is in 2 parts. If we look at, I mean, we have done a lot of discontinued a lot of several business unprofitable and going more for formulation and more qualitatively we have improved, which is a high price and sustainable kind of a business model. So in that, are we really through with all this exercise or still there is some exercise that we expect to have some kind of an impact, maybe 1 quarter, 2 quarter on the top line as well as the EBITDA side? If you can give some color on that?

**Rajaram Narayanan:** So thank you for this question. One always hopes that this is the end of it. As we see it, I think in the last 18 months, there have been several unexpected developments more on the macro level, if you look at it, what happened in Europe 2 years ago and what has happened in some markets like Turkey, etcetera.

And that has impacted both the formulation business where we have a front end and our customers who are there for API post-COVID. So I think the period of '22-'23 has gone around with most markets and most customers coming to terms post-COVID as well as the kind of economic challenges that these countries have had.

And this is true for all industries and all businesses. And therefore, all companies have had to reshape their operations, and those who have a higher exposure to some of these geographies or some of these businesses have had to take more drastic action. And we have, therefore, had to take some of these changes because these are all sound businesses before many of these unexpected events happened.

And therefore, we will have to readjust our business to make sure that we take into account some of these changes. And therefore, I think that given our outlook and given the fact that we have made these specific adjustments, and we've taken fairly hard calls, I think we should not have any serious exceptional issue in the next 2 to 3 years, at least as we sort of see the current. And we've also made our business very strong and resilient. And that's why it's very important to

have quality business and quality customers and because we tend to hang on with you much longer, even when you have disruptions.

So if you have business or a part of your business, which is depending on commodity kind of cycles or rapidly responds to some kind of inflationary pressure impact, then you tend to get more impacted than something exceptional happens. And therefore, I think we have now structured our business where we have a good portfolio.

We have got out of assets which might have been depleting our value in the company. And I think we have now a set of strong products and customers who are here in the long term to remain with us. So I expect a little sort of surprise coming in the next 1 to 2 years, but we need some luck also along it, but we are well prepared for it.

**Bharat Sheth:**

Sir, on the second side, is my understanding correct that you said in near term, maybe, say, 2, 3 quarters you'll grow in mid teens I mean single digit and after 2, 3 years, it will lead to early teen to mid-teen top line. And then the same thing in margins, maybe from next year onward early teen to then going to a mid-teen kind of next 3 years' timeframe. Is that a fair understanding?

**Rajaram Narayanan:**

No, I think we've been guiding as below, and I think it's important that we said that in FY '24, we will exit at double-digit margins. We said as we move towards the next 1 year, we expect to move closer to mid-teen margins and thereafter, we expect to go to high-teen margins. Okay? So that's the direction as far as margins are concerned.

As far as top line is concerned, I said that we've completed more or less the restructuring. I expect next year to be more in the single-digit top line growth. That's more because the arithmetic impact of what we are discontinuing or discontinuing next will play out a bit some part of next year. But thereafter, I expect it to be a mid-teen kind of a growth.

**Bharat Sheth:**

May I ask our CFO to understand, see, what are we doing, I mean, to reduce the finance cost and depreciation will automatically come down as a percentage to sales once we start growing. But on this debt part, how we would like to play really?

**Saurav Bhala:**

Sure. So on the debt part, since Raja explained how we have done a lot of restructuring. So various assets are getting monetized, which we are utilizing to optimize our debt structure to the best extent possible and while at the same time, investing around business growth. Also debt level is correlated to the kind of business growth we are foreseeing and that is how it will be correlated going forward as well also.

On the depreciation part, I think most of our capex has been done, and we are pretty ready with that. So depreciation, I don't see much of increase happening soon. There will be some maintenance capex to optimize and do some backward integration. So depreciation should be pretty on the same line or maybe a slight increase.

**Bharat Sheth:**

So finance costs will keep on coming down or it will remain at this level, I mean?

- Saurav Bhala:** That depends on the overall guidance given or the rate movements by RBI, which is also dependent on the global factors. We all are hoping starting second half of the financial year, we should get some respite. So it is kind of dependent on that as well.
- Bharat Sheth:** Sir, but my question is reduction on the debt can also bring down. So for reduction of the debt, what exactly are we doing? You said after discontinuing Tarapur plant, are we handing off that asset? Or we will continue to hold the land parcel the way it is? And so what other asset that we have, which is the noncore and we may bring down the debt apart from bringing it down from the generating the profit of the company.
- Saurav Bhala:** No, sure. So I think I have explained that, but let me repeat that. So wherever we are seeing a noncore asset, which can be monetized, we are monetizing those assets. And that is being used either to trim down the debt, if possible, or to fund our operation, not to increase the debt at least. So either ways, the debt level is getting managed. If we don't repay, but we don't add on to the debt that itself is a kind of optimization of the debt level.
- Rajaram Narayanan:** And I think it's also that with the kind of growth that we have seen, both in our margins and therefore, in absolute EBITDA and top line, we expect that we will be very, very prudent with any of the ratios which are there. And therefore, we don't expect that to move off. In fact, over a period of time, it will come down.
- Bharat Sheth:** Okay. And sir, last question on our presentation, what we offer API, formulations, and last piece is analytical services. So what exactly that suggests? And are we already doing some kind of services?
- Rajaram Narayanan:** No, so we have a subsidiary, which is called SeQuent Research Limited. Now because it's an independent, fully owned subsidiary, it provides testing and analysis services both in-house to our own business as well as to some other customers outside. So it's listed as a separate line item, it is not a strategic area for us. It is an in-house company which supplies services to our own business.
- Moderator:** Next question is from the line of Sachin Kasera from Svan Investments.
- Sachin Kasera:** Congrats on improved numbers. A couple of things I just wanted to say. One on the capex side. What are the type of capex plans we are having for the financial year '25? Any broad estimates that we are having?
- Rajaram Narayanan:** Do you have any other questions or that's the only one?
- Sachin Kasera:** I have 2, 3. I just thought I'd take up one by one.
- Rajaram Narayanan:** So can you put all the questions together, then we can just put them together?
- Sachin Kasera:** Sure. Second was in terms of the fact that you indicated that now that we are more or less done with the restructuring, every year, we'll see both improvement in terms of margin as well as the rate of growth. So does it mean that we should be able to repay some of our debt?

And finally, in terms of what are the values you share some aspirations in terms of revenue growth and margins? How about the return on capital, which is the most important parameter to the health of the business? Right now, obviously, because of the spreads and the restructuring, we are in the negative terrain. But what is the aspiration there over 2, 3 years period?

**Rajaram Narayanan:** So maybe I'll just go to the second piece of it, which is on margin. I think we've already margin and we have already indicated before, we are looking at ending this year in double digit. We will move more towards mid-teens by next year, and then the idea is that we should be moving towards high teens in EBITDA margins in the following years.

As far as revenue growth is concerned, we will still have some legacy, I would say, financials in next year. So we expect it to be in single-digit growth as far as top line is concerned. But thereafter this business is clearly set for mid-teen double-digit growth from the following year.

**Sachin Kasera:** That was not my question. My question was that if I understand that you indicated improving margins and improving growth, so does that mean that the free cash flow from operations will go up and we should be able to repay some of the debt or we have a high capex plan?

**Rajaram Narayanan:** Yes, I'll come to the second question. On capex, generally, we do not have any out-of-the-ordinary plan. We have our certain capacities, which are enough to meet what are immediate requirements. Though as I have indicated also that the place where we are looking for is in the area of back-end intermediate capacities, etcetera, as there are opportunities. But we expect, obviously, an improvement in the cash flow situation available after that.

So there's no extraordinary capex expected. Most of the increase in earnings should help us improve both from a debt side as well as improve our cash flow, yes? Obviously, like Saurav said, as we begin to dispose of some of the assets, those will be utilized both for retiring some of the debt that we may have, if required, and at the same time also funding any of our existing operations. So we don't see any significant capex requirement which is coming up over here. Saurav, do you want to add anything?

**Saurav Bhala:** No, I think you have provided everything. So on the debt, I think the question Raja has already explained, but debt again, so our working capital requirement will go up once we increase our business size. So that will always be a combination of the business growth. So we are very conscious of our debt level, and there is internal benchmark we have on our debt equity levels. We monetize it very, very closely. And only depending on the business requirement, we will fine-tune it. So we'll do the best required on that area, be assured of that.

**Sachin Kasera:** Yes. But just to take it a little further. If I see our working capital is slightly close around 110 to 115 days. And from the type of growth that you are indicating, the incremental requirement there should not be more than like INR40 crores, INR50 crores according to me. And hence, this question, because see, our debt levels are currently fairly high for the EBITDA that we are generating? And hence, that is one of the key things investors are looking forward to that if we can reduce our absolute debt and you could give some indication on that front either in terms of debt-to-EBITDA targets that you are having or in terms of debt to equity, that would provide us

some more comfort on the balance sheet strength and our ability to see through some of the, maybe in case any stress that comes in the economy.

**Saurav Bhala:** Yes, sure. Sure.

**Rajaram Narayanan:** I think that we can take that in a one-on-one separately, we will be able to give you better answer.

**Saurav Bhala:** Yes. Yes, that would be better.

**Sachin Kasera:** Yes. And my other question was on the return on capital employed or return on equity. Are we having any on aspirations on that front apart from the improvement in growth and margins that you have indicated?

**Saurav Bhala:** Surely, that will improve. So, as we explained also in last few quarters, the entire thing is to improve our efficiency and EBITDA going up. If the EBITDA starts going up, which we are seeing in last 2 quarters, and we believe it will further continue, EBITDA going up will automatically drive all the parameters, including ROCE, ROE, etcetera.

**Sachin Kasera:** Okay. And just one question in terms of you have also mentioned about inorganic opportunities. So what is the type of opportunities you are pursuing in terms of some indication on size like small opportunity, there could be a little larger ones and how will we fund it considering that our debt levels are fairly high? In that case, you may look in terms of raising some equity? Or how do you plan to fund that? Are we are comfortable even getting up some more or do we have some noncore assets that we can monetize for acquisition? If you could give some insights on that?

**Rajaram Narayanan:** So first on the kind of assets we are looking at. There are only 2 areas which interest us. One is anything which is in the companion animal side, if it's something which we can bolt on. That's an area we're of course doing organically as well, but that's one area which we could be interested in the formulation side.

And on the API side, we certainly will look for any asset which helps us augment our portfolio or gives us a step jump in our R&D capability as well as any backward integration, which makes us more competitive, right? That's really the 2 core things.

We're not really looking for product supplementation only. We're looking primarily to look at where there can be a real step-up or which gives us an advantage in terms of time to market, etcetera, in terms of either R&D or in terms of cost improvement through backward integration on API.

So that's really from the kind of assets we're looking at and in terms of the size, well, I think it's very clear, we are not going to leverage ourselves to beyond what we are currently at in order to do this, yes?

And so that brings us to the third question of where will raise funds. I think we have a strong belief from our principal shareholders as well as other companies who are interested in our success. And we believe that if required, we'll be able to raise any kind of capital, which is

required for that. But we're certainly not looking at leveraging ourselves unreasonably to fund any acquisition.

**Moderator:** The next question is from the line of VP Rajesh from Banyan Capital Advisors.

**VP Rajesh:** Sir, I have 2 questions. One is on your revenue guidance. Will that growth be primarily coming from the current business? Or you are expecting in that guidance from acquisition that you have been elaborating about?

And the second question is regarding the gross margin. So we have shown a significant improvement year-over-year. So when you talk about your EBITDA margin improving, is it going to be a factor of gross margin improvement? Or is it purely the operating leverage that will come about from revenue?

**Rajaram Narayanan:** Thanks. I'll leave the margin question to Saurav. But I'll answer the first one, which is on growth. So the guidance that we are giving is most of the growth we are expecting from existing businesses. We expect a lot of the work which we have currently done to actually flow into revenue growth towards the end of next year. And therefore, going ahead that should get us into the kind of growth level, which I have indicated, but that will be from I mean I expect it to be designed around our current business. It's not designed around any kind of M&A.

M&A is not really only for growth. It's also, as I said, it needs to be strategic, it needs to give us R&D capability, it needs to give a backward integration capability. So immediately, we are not sort of jumping into M&A just because we want to add something to top line. The top line growth will come more from existing businesses. On margin, on gross margin and how it flows through, I think, Saurav can elaborate.

**Saurav Bhala:** Sure. On the margin, it will be a combination of various factors. Obviously, our gross margin will improve because, as Raja has already explained much in detail about the strategic restructuring of our portfolio, there are various price increases which we are taking proactively and also reshaping the overall portfolio to improve our margin profile.

Second is on the various CIP projects which we are driving, which helps us reduce our RM cost overall. So because of these 2 factors, our gross margin is improving and we believe it should continue in the current trend. We see some more improvements coming up in the next few quarters.

On the operating expense part, we have been very conscious to control the opex overall. And if you have compared or seen our financials, it is going down quarter-on-quarter. So now we have a base reduction in the opex, and we want to maintain that. So opex will also contribute its part. Overall, on EBITDA level, it will be a mix of both. There will be increase in gross margins, and there will be optimization of opex. So both will drive the EBITDA margin up.

**VP Rajesh:** Understood. Saurav, if I may quickly ask a follow-up. Any guidance around the gross margin? From 45% today, where do you think it can go to the next 2, 3 years?

**Saurav Bhala:** See, the exact quantification will be difficult, but we can see 150 basis points increase in the next couple of quarters minimum. And then after that, we'll see it will further improve. But the improvement would be consistent in the next few quarters.

**Moderator:** Next question is from the line of Kaustav Bubna from BMSPL Capital.

**Kaustav Bubna:** So just wanted to understand what your outlook is on the Turkey market? And is there any way we are thinking of protecting our business in this market from the currency volatility?

**Rajaram Narayanan:** So thank you for asking this question. I think Turkey has been through a lot of challenges economically: one, because of inflation and two, because of surging direction of economic policy, which did not help as far as the currency is concerned in the current inflation setup.

What we've seen on the economic side is that the government certainly has brought in completely sort of more conventional approach to managing the economics. And therefore, we are seeing higher interest rates. We're seeing a bit more steadying at the rate of devaluation.

And inflation, of course, is continuing to be high, and that's being managed now with higher interest rates, which is quite the opposite of what was being done 2 to 3 years ago. So the sense we have over there is that things are a bit more predictable. They are on the higher side, but they are more predictable. It's a very large market for us as well as for the industry.

Therefore, we want to take actions which are going to help us strengthen our position, and be there for a longer time in terms of improving our competitiveness. We have done Q3 very quick and fairly aggressive actions on that. We have been fairly aggressive on pricing, which was something which earlier was not part of the way in which most companies did it.

So we are seeing that benefiting us. It is helping us to hold on both to our market share, but at the same time, it is also helping us counter the inflation level there. And because we are a strong company over there, we are, in fact, somewhat benefiting from it because some of the fringe players in the market are the ones who are actually closing down or moving out so our market share is strengthening.

The second, the government is also intervening in terms of including the demand side. So we saw for a couple of years, a reduction in cattle population in Turkey as farmers began to opt out of rearing cattle because of inflation, but the government has now stepped up and have started importing cattle into the country and to restimulate the availability of farm animals in the country.

And we hope to see some pickup going up there, and that should help our business. And the third and most important thing for us as a company is that we have a strong manufacturing footprint in Turkey.

We have a good brand over there. And we are stepping up using Turkey as an export base for the company. That helps us in 2 ways. One of course it helps us in revenue, it helps us in getting good business. But at the same time, it also helps us hedge naturally for the foreign exchange risk which is there.

So our exports from Turkey are getting stepped up. And we think that very soon, we will be able to offer a natural currency hedge for the import and export based on our operations there, and therefore, should be less exposed to issues like devaluation and be able to be stronger compared to other companies that are there in the business.

So overall, I think we will see still some volatility, and that's not because there'll be a translation of currency issues, which may be there for the short term. I think from a fundamental business viability as well as running the business in Turkey, I think the market is now getting to stabilize. So we are very careful in everything that we do.

**Kaustav Bubna:** Thank you so much for this detailed response. Really appreciate it. Best of luck for your future performances and hope you keep this turnaround strong.

**Rajaram Narayanan:** Thank you.

**Moderator:** Ladies and gentlemen, in the interest of time, we will take last few questions. Next question is from the line of Jay Jain from Finnovate Financial Services Private Limited.

**Jay Jain:** I have a couple of questions. First, What are your plans on the China front, which was one of the regions that the company was showing interest in post the Carlyle acquisition? Are we focusing on that right now? And the second one is, when are we expecting to do more filings in the U.S. on the formulation side? And is there any time line on them commercialization of those filings?

**Rajaram Narayanan:** So firstly, on the China front, I think a lot has changed. And on China, from an API point of view, China is more a competitor for us at this point of time. There are, however, opportunities for us to be able to export certain APIs to China.

And it still remains as and when we have an opportunity, we will move into supplying there, but it's not a strategic thing for us because much has changed in the opportunity, which was over there in China for us right now. So it's not something that we will be discussing as we don't have it on top of our priorities in the next couple of years.

On the second part, on the U.S. formulation piece of it, we've completed the validation, etcetera from Germany. We then took a pause for it because we closed the plant. We still have that live on our project list. As I said earlier, we are looking at a couple of FDA preapproved CMOs, which we have shortlisted. And this is something that we will be clearer in the next couple of quarters once we have finalized our CMO in India.

And the completion of our dossiers, etcetera, is in progress, and we will be ready with the necessary tech packs, etcetera, which are ready for validation, I expect in the next quarter or so. But whether we will go all the way into filing formulations, etcetera, will be something that we see it within a couple of quarters, which is the project having been delayed even the market opportunity may be different now. And the approach to doing this may be very different after 6 months. So we'll probably give you clarity on it only after about 6 months.



- Moderator:** We will take the last question from the line of from Saurabh Patwa from Quest Investment Advisors Private Limited.
- Saurabh Patwa:** Sir, just 2 questions. One is, can you just help understand on this ESOP cost. How do you see trending it over the next 2, 3 years? And second question was if an investor wants to have a detailed discussion, have you started meeting investors apart from the call?
- Rajaram Narayanan:** So I'll answer the second piece of it, and Saurav will take on the one in the ESOP. Saurabh, you can always write to us. We meet investors. We regularly do these calls, and as any investor you can certainly write to us if you have any clarification either on our results or on any other point of view that you have in the company, and we will be more than happy to share with you on that. If you want any further interaction, then please write to our investor cell and we'll take it up immediately after that. On the ESOP piece, Saurav, maybe you can give a glimpse on the trend, etcetera.
- Saurav Bhala:** Sure. So on the ESOP, generally, in all the companies, the scheme is generally the cost is front ended. First few years are very high in terms of ESOP cost and then it starts going down. Same is the case with us. First few years, which have already passed was high in terms of. If you see this quarter itself, Q3 last year versus this year, we are almost kind of getting about 40% saving. I think that trend will continue. And next year onwards, it would be very normalized cost because most of the funded cost has already happened in the last 2 years. So you will see a reduction there also.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question of the day. I now hand the conference over to management for closing comments.
- Rajaram Narayanan:** Thank you very much for attending this call. And I think you would have noticed that we are progressing in the right direction in line with what we have indicated, which is keeping our margins sort of moving upwards steadily and also building the capabilities which we need for further growth and expansion, both on API as well as on formulation and then using that foundation for triggering growth in the coming 2 to 3 years. So we look forward to seeing you again next quarter with the results. Thank you very much. And with that, we can close the call.
- Saurav Bhala:** Yes. Thank you. Thanks for your trust on us.
- Moderator:** Thank you. On behalf of SeQuent Scientific Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.