Sequent
Proven Ability In Life Sciences

November 22, 2024

To,

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

Scrip code: 512529

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

Symbol: SEQUENT

**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 half year ended September 30, 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 Unaudited Financial Results of the Company for the quarter and half year ended September 30, 2024.

The same is also available on the Company's website at https://sequent.in/wp-content/uploads/2024/11/SeQuentScientific-Earnings-Nov14-2024transcript.pdf

Kindly take the same on your record.

Yours faithfully,
For **Sequent Scientific Limited**

PHILLIP TROTT
Digitally signed by PHILLIP TROTT
Date: 2024.11.22 18:43:07 +05'30'

**Phillip Trott**
**Company Secretary & Compliance Officer**

# “SeQuent Scientific Limited

# Q2 & H1 FY '25 Earnings Conference Call”

# November 14, 2024

**MANAGEMENT:** **MR. RAJARAM NARAYANAN – MANAGING DIRECTOR – SEQUENT SCIENTIFIC LIMITED**
**MR. HARI BABU BODEPUDI – WHOLE-TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER – VIYASH LIFE SCIENCES**
**MR. RAMAKANT SINGANI – CHIEF FINANCIAL OFFICER – VIYASH LIFE SCIENCES**
**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 Q2 and H1 FY '25 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 Singhal:** Thank you, Dev. A very good morning to all of you, and thank you for joining us today for SeQuent Scientific's Earnings Conference Call for the second quarter and half year ended financial year 2025. Today, we have with us Mr. Rajaram, MD and CEO, SeQuent Scientific; Dr. Hari Babu, Whole-Time Director and CEO, Viyash Lifesciences; Saurav, CFO Sequent; and Ramakant, CFO of Viyash Lifesciences, 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 the website as well as the 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 will be forward-looking in nature, and must be viewed in relation to the risks pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out to the Investor Relations team.

I now hand over the call to Rajaram to make his opening remarks.

**Rajaram Narayanan:** Thank you, Abhishek. Good morning, everyone. A very warm welcome to everyone on the call for the Quarter 2 FY '24, '25 results. This is a significant quarter update as we share the progress on the performance of SeQuent and also update you on the strategic merger with Viyash Lifesciences. I'm delighted to be joined on the call by Dr. Hari Babu, Whole-Time Director and CEO of Viyash; and also joining on this call is Saurav, our CFO, Sequent; and Ramakant, CFO of Viyash.

We are now halfway through this financial year, and I'm happy to share that we continue to improve our performance in most markets and businesses. Coming to the performance of the quarter. In quarter 2 FY '25, our consolidated revenues came in at INR368.6 crores during the quarter, which translates to revenue growth of 6.6% when compared to the same quarter last year that is quarter 2 FY '24.

At the end of the first half, revenue stands at a healthy 11.7% growth versus the first half of last year. This growth continues to be quality growth, which is seen in the margin and EBITDA numbers. If you look at the EBITDA pre-ESOP numbers for this quarter, it came in at INR44.7 crores, which represents nearly a 70% growth over quarter 2 last year.

And when we consider the first half of the year, the EBITDA comes in at INR93 crores, which represents a 160-plus percent growth over the first half of last year. So we are trending well,

not only in terms of consistent improvement but also in line with the broad guidance that we have given.

While Saurav will go into more detail, I will share some qualitative highlights and more details are, of course, available in the investor presentation. When we look at the external factors, there is always the geopolitical and macroeconomic aspects to keep in mind. We have a strong presence in the developed and regulated markets of U.S. and Europe, where there is general stability. We, therefore, see a favorable environment for our business.

Our formulations business, which is spread over many countries has had a good quarter and a good first half for the fiscal year, growing in double digits overall and in most geographies. We are expanding phyto-solutions range to more markets and have also introduced new products for companion animals. There has been strong growth in Europe, especially in our distribution business, and we are beginning to slowly get price increases in an inflationary environment.

Coming to emerging markets. We are seeing a more predictable and steady currency scenario in Turkey, and the government actions are also more calibrated and predictable. We have, therefore, accelerated our efforts to launch a few more products in the coming year, apart from taking judicious price increases.

As we indicated earlier, we have received EUGMP certification for our manufacturing facility in Turkey. So we have started validation of the first load of injectable products for exports from this facility. Our exports from Turkey help us in hedging foreign exchange requirements in addition to driving operational efficiencies. So this has been a good first half for exports from Turkey.

Our business in Brazil, which has seen flat to declining performance last year has begun growing this quarter as we refreshed the product portfolio and expanded to other LatAm markets. And as we have shared earlier, we have expanded our formulations team in India, and this is the first full quarter of that impact. And the India formulations business has also delivered strong double-digit growth.

Now coming to the API business. API revenues for the quarter were slightly below planned as we had to postpone a few quarter-ending shipments to carry forward to the next quarter. But our margins continue to improve, and we have successfully completed many customer audits for continuing businesses as well as for commencing new supplies.

The plants in Vizag and Mahad have received important recognitions for safety and quality from government authorities, customers and industry bodies. Some details are available on this in the investor presentation.

It is here that I wish to bring your attention to the proposed merger with Viyash Lifesciences. The merger will have a transformative impact on the company. In terms of R&D, supply chain and manufacturing, the combined entity will have significant scale, for instance, a sixfold increase in R&D strength and a fivefold increase in capacity.

Viyash is a very strong performer in all aspects of the business. And you would have seen in the investor presentation the excellent results of Viyash on a stand-alone basis as well as the impact on the combined entity. Clearly, this is a highly accretive merger, which will drive strategic advantages for the business. Dr. Hari will later provide a more detailed perspective on this.

So we are now poised for accelerated growth while improving margins. There is increasing interest in animal health, both for production animals and for pets. In addition, there is a growing demand for India to participate as an important source of products and services, be it APIs, formulations or CDMO opportunities. We remain focused and confident that our actions and plans will deliver consistent, profitable and sustainable growth in the coming years.

I will now hand over to Saurav to share the financial details of SeQuent and then invite Dr. Hari to share the highlights of Viyash performance. Over to you, Saurav.

**Saurav Bhala:** Thank you, Raja, and good morning, everyone. It's a pleasure to be here today to provide key highlights into our financial performance for both the Q2 and H1 financial year '25. We'll also update on the progress of our strategic M&A announced for the composite scheme of amalgamation with Viyash Group and SeQuent Research Limited, one of our wholly-owned subsidiary, which marks an exciting phase in our journey towards long-term growth and value creation for all the stakeholders.

Starting with the SeQuent financial highlights. For Q2 financial year '25, total revenue is at INR3,686 million with EBITDA pre-ESOP of INR447 million. For the first half of financial year '25, our total revenue is INR7,589 million and EBITDA is INR930 million. I'm pleased to report a strong year-on-year growth of 6.6% for Q2 and 11.7% for H1 financial year '25.

Our EBITDA growth is particularly impressive with a 70% increase in Q2 and a 161% increase in H1 on a year-on-year basis. These results reflect our ongoing commitment to drive operational excellence and profitability.

Q2 financial year '25 revenue highlights. In Q2, our formulation business generated INR2,836 million in revenue, accounting for 79% of our total revenue, while API business contributed INR773 million accounting for 21% of our top line.

Our European operations delivered robust growth with revenue of INR1,335 million, reflecting a 5.5% year-on-year growth on a constant currency basis. Emerging markets reported revenue of INR1,160 million, up by 26.5% year-on-year basis in constant currency. This growth is driven by selective price and targeted price increases and volume recovery in our Turkey market, which is one of our key global formulation markets. The Indian formulation business posted revenue of INR341 million, reflecting a strong 25% year-on-year growth.

Gross margin improvements. We are pleased to report an improvement in our gross margins, which increased by 190 basis points in Q2 rising from 45.1% to 47%. For H2 -- H1, the margin improvement improved by 265 basis points from 43.4% to 46%. This growth can be attributed to several strategic initiatives, including sales mix optimization, and implementing targeted price increase across geographies.

Cost optimization, in line with our focus on improving operational efficiency, successfully reduced operating expense despite facing inflationary pressures across geographies. We achieved a 1% year-on-year reduction in our operating expense for both Q2 and H1, respectively, demonstrating our disciplined approach towards cost management.

EBITDA margin improvements, these actions have led to a significant improvement in our EBITDA margins pre-ESOP, which increased by 452 basis points in Q2 from 7.6% in Q2 financial year '24 to 12.1% in Q2 financial year '25. And by 700 basis points in H1 from 5.2% in H1 financial year '24 to 12.3% in H1 financial year '25 reflecting our continued focus on driving profitability.

Other income and financial items. During the Quarter 2, we recognized a gain of INR31 million on the transfer of leasehold rights for our Tarapur facility in India. We also recorded a net monetary gain due to impact of hyperinflation in Turkey as required, Ind AS 29.

Balance sheet highlights. On the balance sheet, we saw a very modest increase in working capital, which rose to INR425 million, up from INR4,201 million as of 31st March '24. This increase reflects a strategic decision to support the planned growth in our Turkey and Spain business, resulting in inventory levels for short term.

In terms of leverage, our net debt-to-EBITDA ratio improved to 2.3x as on 30th September '24, compared to 3.55x as of 31st March '24. On an absolute basis, our net debt stood at INR3,774 million, a slight decrease from INR3,378 million as of 31st March '24.

Our improved leverage position gives us -- capacity to manage future business growth investments. And navigate any potential economic uncertainties, positioning us well for long-term growth and value creation for all our stakeholders.

Moving on to update on our M&A progress. I'm pleased to report that we have made good progress on the composed scheme of amalgamation. This scheme has been approved by our Board of Directors, involved a merger of Viyash Lifesciences Private Limited and its subsidiary, as well as SeQuent Research, a wholly-owned subsidiary, SeQuent Scientific Limited.

The completion of the merger remains subject to necessary regulatory approval for which the process has started and is progressing well as per the plan. Here are a brief timeline of key milestones achieved as on date. Board of -- Board approved the scheme on 26th September 2024. BSE filing of the scheme was done on 16th October '24, and the scheme has got listed on the BSE website.

NSE filing of the scheme was done on 17th October '24, and the same is listed on NSE website. In addition, we have also started the process to relocate our registered offices as follows: SeQuent Scientific Limited from Thane to Hyderabad, SeQuent Research Limited from Mangalore to Hyderabad. For the above merger process, we incurred a cost of INR43.2 million during Q2 and H1 of financial year '25, which are accounted for and disclosed as an exceptional item in the reported financials.

In summary, our strong financial performance in Q2 and H1 highlights the success of our strategic initiatives, operational efficiencies and continued focus on profitability. Progress on our M&A activities further strengthens our position for long-term growth and expansion. We remain dedicated to delivering value for all our stakeholders, and we are confident in our path towards sustained growth.

With this, I now hand over the call to Dr. Hari Babu to share further details on the performance highlights of Viyash. Thank you.

**Hari Babu:** Thank you, Saurav, and Raja. Good morning, everyone. I'm very glad to share Viyash's financial performance and also strategic initiatives today. So coming to financial performance, Viyash recorded strong performance in Q2 FY '25. Our revenue grew by 10% year-on-year to INR363 crores and strong EBITDA growth by 33% year-on-year to INR63 crores. Viyash had EBITDA margins of 73% with an improvement of almost 3% year-on-year.

Coming to first half of FY '25, Viyash revenue grew by 5% year-on-year and again, a strong EBITDA growth by 30% year-on-year. Viyash had a strong first half '25 EBITDA margins of again 17.2%, which is almost improvement of 3.3% from last year. And we also generated INR100 crores of free cash flow.

I think this is a big achievement for this year, mainly driven by optimization in working capital and also low capex. As we mentioned earlier also, we have actually strong infrastructure in manufacturing and also we have some free capacity. That's how we were able to reduce capex. Our net debt to LTM EBITDA ratio is 0.7%, even after actually investing to acquire 5% residual stake in first half.

The financial performance is driven mainly by focusing on high-margin API products. And also, as we mentioned earlier, we rationalized a couple of intermediate business, which are not sustainable products and also a continuous cost optimization of various projects, both API as well as intermediates. And also business growth is mainly supported by investments what we did the last couple of years, where we did a lot of investments and resources in R&D as well as operations.

With that, actually, it started resulting now new product filings as well as launches. So I think these are the recorded filings. First half, we are able to do 19 products globally. Of course, 17 are API and 2 FDFs we filed all over the world, start from U.S., Europe, China, everywhere in the world.

And also, we were able to launch 2 products in first half. And the second main key focus area where we did last couple of years, innovative business. Even though we were doing innovative business for their life cycle management, with our strong R&D strength and operating platform, we are able to develop 2 more innovative business -- and after struggling last 2, 2.5 years hard work, now we are able to validate and supply validation quantities for 2 innovators. One is API, we did last quarter and also we did one intermediate last quarter.

These 2 are basically part of their life cycle management, where they do large volume commercial products. And we expect approvals for these things start from maybe next 1, 2, 3

years because it requires a lot of regulatory filing from this side, and it's going to generate business from -- after 1 year intermediate, but most of the API business is going to generate maybe after 2 years, right?

In continuation to this, of course, we have a few products also in pipelines, strategic tie-up with innovator as well as large pharmaceutical players. And also, as we continuously mentioned, this is an R&D-focused company. So we have always strong product portfolio and pipeline. So today, at any point of time, today, we have 25 products in our pipeline, and we completed 9 products validations in first half.

And with our regulatory and quality focus, we were able to manage multiple audits continuously. I think last 6 months, there were 99 customer audits from various countries, and our team was able to handle successfully all audits. And also, we have received 2 EIR -- clean EIR from U.S. FDA, which was audited last quarter of FY '24. These are the 2 clean EIR. And also, we are expecting a few more inspections soon, but our team is fully geared up to manage all those things.

And first half of FY '25, we have received 6 regulatory approvals, 2 in U.S. and 3 in Europe. These are a mix of both FDA as well as a couple of CEPs. And also, we received product from China. And diverse revenue from strong portfolio. So our portfolio is always we say it's differentiated from all other generic companies that shows actually a strength of sustainability maintaining profits.

Our top 10 products contributes almost 62% of our API revenue. And this is mainly because of our products are either innovative based or a little bit complex. And also, we are able to maintain sustainable growth because of fully backward integrated and complex products. And these 10 products, if you see last 2 years from FY '20 to '24, it has grown over 20% CAGR, last 2 years.

And also out of 10 top APIs, 6 products, we are global leaders with 50% plus market share. And our portfolio is always either complex or fully backward integrated with the high share of revenue from regulatory markets. Most of our commercial products, we are very strong in regulatory. That's how we are able to sustain the gross margins. And innovator relationships. We have strong innovator relationship. I think we have 4, 5 innovators who always we do business, but it's mostly part of their life cycle management.

We are continuing to do both innovators as well as strong relationship with the big innovator companies. And team, our team is very strong. It's all our globally experienced team and average experience, I can say, more than 20, 25 years, each one. And most important, all these guys are very well exposed to every global market to handle either R&D complex development or manage highly complex regulatory environment and also business team is very qualified team managed all over the world. And of course, all our quality and regulatory teams are pretty strong globally.

With this, let me update a little bit about our combined performance of merger entity. For Q2 FY '25, combined revenue of the 2 entities grew by 8% year-on-year and most important,

EBITDA grew by 46% year-on-year. The combined business had an EBITDA of INR108 crores with 14.7% margins with 380 basis points improvement year-on-year.

Going to FY -- first half of FY '25, combined revenue of the 2 entities grew by 9% year-on-year and EBITDA grew by 67% year-on-year. The combined business had an EBITDA of INR214 crores with 14.6% margins with 510 basis points year-on-year improvement. So the combined net debt today, net debt-to-EBITDA ratio is 1.4x, and it's going to improve continuously.

As we had indicated previously, the merger will create a global integrated end-to-end pharmaceutical business, both in animal health as well as pharmaceuticals, human health. The combined business will have, as Rajaram mentioned earlier, it's 6x larger R&D time, R&D team is almost 200 people in Viyash and 5x more capacity and 10 more U.S. FDA-approved sites.

As you guys know, Viyash, all our sites are fully FDA-approved sites. We believe there are potential synergies in 4 core areas. That's the strength of, of course, Viyash and SeQuent. The first one is manufacturing with the strong capability of Viyash manufacturing and procurement. That's where actually we can have a lot of synergies for SeQuent. And also business perspective, since both companies are having relationship with big pharmaceutical companies, including innovators, we strongly believe we can expand sales footprint for both companies.

And R&D with Viyash coming in, strong R&D, this is going to help SeQuent a lot in R&D perspective to develop new products as well as launching. Others, of course, indirect costs since our base is going to grow largely this indirect cost, direct procurement, all it's going to have large synergies. And of course, we started putting together what kind of synergies, and we'll start acting very soon on those things within the regulatory purview.

As Saurav mentioned merger scheme, merger scheme has been filed already with the exchanges. We started addressing their queries. And we expect this maybe next 12 months -- 12 to 15 months, as I explained earlier, I think it's on track. With these things, I can say with the combined platform, we are going to have a strong business potential. We started working together. Of course, within the regulatory purview, we are going to put together what kind of synergies, when can we act, when we are going to see those synergies will come to you guys soon.

With that, thank you so much, and we are happy to answer any questions. Now I hand over to Abhishek to you. Thank you.

**Moderator:** Thank you. We will now begin the question-and-answer session. The first question is from the line of Ritika who is an individual investor.

**Ritika:** I actually have three questions. One is, would you be undertaking any acquisitions in the future? And what kind of businesses would that be in? Secondly, Carlyle invested 4 years ago, I think. So what are their plans for exit? And third would be what is the plan to reduce your debt and also your finance cost?

**Rajaram Narayanan:** Thank you very much, Ritika. So obviously, this is a big merger for us, and it has been -- this itself is something that has to get executed over a period of time. But would we be open to any kind of acquisitions and opportunities, whether they are small brands, whether they are small partnerships or even strategic large opportunities? Yes, we will be.

It needs to fit in with the areas which we want to grow. And we have spelled it out very clearly that we are looking for growth in certain specific areas in animal health. We are looking at opportunities to deepen our capabilities. And also in terms of the entire companion animal area is the place where we would be open to taking any acquisitions.

So yes, we are. But obviously, we need to be very disciplined in the way we will make these choices. It is not something that we are intending to do merely to pursue growth. As far as Carlyle plans, frankly, they are the promoters in this. I would imagine that they are fully -- since they are the principal shareholders in both the companies, and this merger would indeed also go through with the support of Carlyle.

They are fully invested in this particular operation. But I wouldn't be able to speak on their behalf, except, of course, say very clearly that we have enormous support from the promoters in all respects, including the execution of this merger as well as benefits that we would get after this particular merger. On the third area, which is to reduce debt, I think you're already seeing that we have, as a result of this merger, in terms of leverage, we would be coming down quite substantially. But I'll ask Saurav to comment a bit on the debt side of it.

**Saurav Bhala:** Yes, sure. Thanks. So our debt-to-EBITDA level is already going down. As I explained, it was at 3.55x as on 31st March '24. As on 30th September '24, we are down to 2.30x. And with the improvement in EBITDA, the debt or the gearing ratio is going to go down. Overall debt level, I believe, would remain same for next few quarters, where there's a lot of investment happening in terms of working capital to support the business expansion.

Also, it's important to note that is on a stand-alone basis. If you see on a combined basis, even today, our debt EBITDA is below 1.50x if you combine SeQuent and Viyash financials. And that brings us to a very comfortable position in terms of overall debt level and the gearing ratios. Thank you.

**Rajaram Narayanan:** Thank you. Maybe I'll ask Dr. Hari to also comment a bit on the first question, which is on any plans on the acquisition because I think that given the current merger, he would also have a perspective on that.

**Hari Babu:** Sure, Raja. This is a continuous process either expanding the business or expansion goes through various things, right? One is going into the new capability development like new product acquisition or new acquisitions or mergers. This is a continuous process, but definitely, we look at continuously, but may not be bigger acquisition soon, but we are going to add multiple areas on capabilities and products. And also if we get opportunities, we are always open to acquire products.

That's a continuous thing. And coming to that one, financial strength, if you see combined entity, we are going to be very financially strong company. It's going to soon, maybe I don't

know exactly, at least 1, 2 years, it's going to be debt-free company. But the intention is not to maintain debt-free company, how can you invest further and grow business? That's a continuous process.

**Moderator:** The next question is from the line of Nikhil Shetty from Nuvama Wealth.

**Nikhil Shetty:** And sir, could you clarify is there any seasonality in our formulation numbers as the sequential figures appear lower? And also what is the primary driving the growth in the Indian formulation? Are there any recent product launches or it is largely due to the field force expansion?

**Rajaram Narayanan:** Thanks. So first of all, there is seasonality in specific markets. But on an overall basis, it's not really seasonality. I think sequentially, you will see some reduction in quarter 2 compared to quarter 1 because as we had indicated, we had had an extraordinary sales of vaccines in the first quarter on account of a breakout of the Blue tongue disease, which happened in Europe. And that was something which gave us quarter 1 a bit of a jump. But having said that, all the other businesses on a year-to-year basis are growing in double digits. And that's why I would say that the growth of the businesses are intact.

The second part of it is -- but yes, in market by market, you will find some seasonality, which will come in. But this particular quarter being slightly lower than the first quarter, but still growing in double digits is on account of additional sales that we got in Europe in the first quarter. Second question on the India formulations growth. It is not entirely on account of addition of new people that has just started giving us the impact because, as you know, it takes time for the new locations to get full potential of sales.

It is on account of more aggressive promotions. It is also on account of 3 new products, which we had launched last year. which are now getting the full scale of sales. You would recall that I've spoken about 3 products which we had imported -- started importing from Turkey and we've launched it in India. So we're also getting some growth on account of that.

But the impact actually of the new people on ground would be more evident towards quarter 4 because that's the kind of time around which you begin to reach full real capacity for what you have invested in terms of people. So it takes about a year to get the full potential of the region. Thank you, Nikhil.

**Nikhil Shetty:** Yes. So it would be helpful to understand the extent of API sales that have shifted to Q3 and the reason behind the shift and what quarterly run rate you expect for H2?

**Rajaram Narayanan:** Look, I won't get into the exact number, but we would typically have liked to be more in the region of INR85 crores to INR88 crores is the kind of number which we should have been in quarter 2. So you can make some kind of estimate of how much might get carried forward. I think we are right now looking, as we had indicated earlier that between an INR85 crores to INR95 crore run rate is what should be a sort of steady state for us. At this stage, there's no reason to believe why we will not be that.

**Nikhil Shetty:** Yes, that's helpful. And lastly, sir, regarding exceptional items, are there any remaining expenses related to the Viyash merger? Or have all costs have been reported in Q2? And could you explain why esop cost is higher this quarter? I believe it was expected to be lower.

**Rajaram Narayanan:** So I'll answer the second one piece of it. As you know, there is a total plan for esop, which was approved in 2020. And we have now nearly completed the allocation of all that was not granted. And so with that, we have nearly completed all the grants which were there. So it's one, the balance grants, which have been provided in this particular quarter as well as some change in the vesting conditions, which have -- which will not impact on the totality of the cost, but would accelerate a bit into the early year and not impact the total impact on the total cost of the esop.

The second question in terms of exceptional items. Obviously, the merger process is on. So there will be costs which will come. But this is what is typical to any kind of a merger. We will make those estimates as we go along. I wouldn't want to give a clear guidance on that right now.

**Moderator:** The next question is from the line of Bharat Sheth from Quest Investments.

**Bharat Sheth:** Congrats to the whole team of the SeQuent this year. Sir, my question is now since announcement 2 months has already passed, but I mean, so before official merger is announced in April, so operational, what are the benefits that we look -- I mean, try to get in, say, over the next 12 months to 2 years' time that can help us, I mean, understanding broader aspect? That is first question.

**Rajaram Narayanan:** So what's the other question, Sir? What else, what are the other questions? I just take all the questions together so that I'll be able to answer.

**Bharat Sheth:** And we have been getting understanding that a lot of -- I mean, animal health care are looking India for CDMO business. as well as custom manufacturing. So in that place, how we'd like to play out over the next 2, 3 years? And third, on the financial side, sir, if I look at, I mean, our H1 formulation growth reported to be 16%. But if we look at constant currency, which is 24% and since you -- in your opening remarks, you said that Turkey has stabilized. So how do we see second half growth?

**Rajaram Narayanan:** So thank you, Mr. Sheth for the 3 questions. I'll take the third one, which is on the constant currency growth and on the formulation. So at this point of time, what you can see is that there is growth in constant currency as well as there is growth in the reported currency in both -- in almost all the markets, right? So I think that gives us a sense that -- and there is not so much of a difference between the 2 growth numbers, which means that there is no adverse movement in currency other than what is normally would be a depreciation, which may happen here or there.

So to that extent, I think going ahead also in the second half, we are confident and also hopeful that there will be growth both in constant currency as well as in the reported currency on the -- in all the markets. In Turkey, specifically, since you have asked, in recent times, which is the last 2 quarters, we have seen that the currency is relatively more stable.

And also there are no ad hoc sort of announcements and initiatives, which we used to see about 2 years ago. So to that extent, I think we can begin to be looking at a business where we are focusing on growing volumes, making sure we are launching new products and not get too impacted other than, of course, inflation, but that's where we bring in price increases.

There are 2 other questions, which actually I will request Dr. Hari to give his perspective on it. The first being on now that the merger is a little over a month from an announcement, how do we see the next 12 months in terms of synergies and things coming together. And also the second one, which is on the CDMO opportunities, which could be coming up in animal health. Thank you, Dr. Hari.

**Hari Babu:** Yes. Thank you, Raja and Saurav. Coming to synergies, we started working with the synergies. And as I explained, there are 4, 5 core areas where we are looking at the synergies, R&D, manufacturing sales and other indirect costs, whatever. These synergies will be both short term, midterm and long term. We started working. Of course, since we just filed 2 months back, still we need to understand what extent we can share this to public.

But as soon as we can, we will share, but we are working very seriously both teams. But definitely, it's going to be the good synergies, both short term and midterm. But most important long term is our focus. So we can share you guys as soon as we can because still we need to work what kind of things we can share to the public.

And the second thing is CDMO. There's a lot of initiatives happened both sides. Already, we started interacting, okay? Without conflicting anything whether CCA or regulatory purview, we started interacting. And we see some good opportunities coming in CDMO business with Viyash capability already we started working with one CDMO business very actively. But these CDMOs will take a little longer time.

It's mostly midterm opportunities thing. And Viyash also there's a large number of products going on, both CDMO with big pharma as well as CDMOs with big generic companies also, we are trying to work with big generic companies in different ways. Instead of just selling and buying mode, we are working with a few partners.

That's how you see that just in 2 years for any company, it's not easy to build a relationship with innovator and complete all their requirements, which includes big EHS activities and quality and developing products as expected by them. It's not like generic whatever process you can do, it's not the same way to CDMO.

So we are very successful to develop 3 products with them to innovators. Already we validated and supplied one intermediate and one API. These are the big products which is going to happen that. So it's going to be a large CDMO business next 3 to 5 years, but CDMO revenues will start coming maybe in the medium-term kind of thing. I hope I answered your questions. If you have any further question on this, I can...

**Bharat Sheth:** Apart from that contract manufacturing, which SeQuent already has and SeQuent has got some approval. So how do we can, I mean, transfer because SeQuent is facing some kind of a

manufacturing capacity constraint also. So that can be transferred to our facility in 2 years? And how long that will take?

**Hari Babu:** So there are 2 aspects in that. One is how fast you can expand or transfer existing business. Still, we want to maintain that animal health identity in that site. Whatever SeQuent requires immediate needs up to penultimate stage. Up to n-minus-one stage is same, whether it is human health or animal health. That's where we have a large capacity. You can see our intermediate facilities are approved by FDA.

That's where we can do quick transfers. That's what we call, if it is US FDA CB-30. All other regulatory approvals, of course, based on the market normally takes 6 months to 1 year. Some things can happen in 6 months, something can happen in 1 year. So we are evaluating all those things. The short-term approach is whatever intermediates, they need, additional demand, those things can be transferred immediately to Viyash manufacturing sites.

And also second thing where we procure key starting materials from external sources. If there is a synergy, those things also we'd like to transfer to Viyash. Of course, the additional capability to build SeQuent for short-term needs. So already, we are working together, how can we expand final stage APIs by supporting Viyash from intermediates.

So these things are happening. It's not only contract manufacturing, it's contract development as well as manufacturing. And also now SeQuent is going to pursue aggressively on generic animal health products. Today, most of the SeQuent business is going to innovator 70%, 80%. And there are a lot of opportunities coming even from generic animal health. That's where we are going to focus on these things. All we are working on, I think maybe take some time. We can share you as soon we can.

**Bharat Sheth:** Then the next question?

**Rajaram Narayanan:** Hello. There's a next question?

**Moderator:** The next question is from the line of Kiran D from Tabletree Capital.

**Kiran:** Sir, this question is to Dr. Hari. Sir, I mean, we have tried searching for more information on Viyash licenses, but beyond knowing that Linezolid is one of the products, we hardly know anything about Viyash. We are not able to find any information. So if you could just elaborate in detail about -- some of our customer segments, what we do, how much is our domestic revenue, how much is our export revenue?

Are we doing ARVs, anti-infectives, oncology, which segments? So if you could just elaborate on the Viyash business on product segments, customer segments and what percentage of domestic export revenue, innovator segments? If you could just -- again, this is like a very strategic level of information that I'm looking for, Dr. Hari.

**Hari Babu:** Sure. Thank you for that. But I can give you very high-level things, guys. I cannot go into very detail, but I can give you a very high-level thing. So Viyash operates very large portfolio in API today. So we have about 60 commercial products, and we operate almost close to 150

countries. So we sell everywhere in the world. Our majority business, of course, API business in Europe, major business, almost 30-plus percentage we do, but we are growing very fast in the U.S.

And we do business in LATAM. We do business in China. And our large business is coming from exports and mostly from regulated markets. So regulated markets, the definition that somebody says U.S., Europe, Japan, Australia, but if you look at the markets like emerging markets, China, Brazil also works under highly regulated markets. Once you enter with the client, it's very difficult to change those markets.

In fact, U.S. is much easier than those markets. So our major revenue comes from regulated markets, U.S., Europe, LatAm, China. And now last 2 years, we started working with Japan. If you ask me straight, where we don't have much business today is Japan. That's where we are working very seriously. Fortunately, we are able to tie up with a few customers last 6 months, 1 or 2 products.

And our India domestic to domestic market is very little. We don't sell much for domestic to domestic. See, even though our numbers reflects India sales, it mostly goes into the regulatory markets. You know very well, most of the Indian companies control U.S. as well as Europe generic market. So that's how they buy from us and convert and sell it to U.S. Europe. So it's going to the mostly regulated markets.

So we have 60 commercial products and almost 20 products under, either filed or under approval stage. That's the use case. And always, our pipeline is around 20%, 25%. We have very strong portfolio team. And of course, R&D, we have strong R&D around 175 people in AP R&D. They are capable to do at least INR10 crores, INR12 crores in a year. That's how we are able to do that.

And when it comes to product segment, we are everywhere. Most of the things, API business requires general facilities for most of the areas, except a few areas like fermentation or hormones or oncology. Other than hormones, fermentation, we are everywhere. So this product segmentation is -- we are in all categories, whether CNS, diabetics, every area we are there, in fact, to all those things. And new area where we started is oncology. We have FDA-approved facilities.

Oncology, one facility, we mostly used to do for contract manufacturing, one of the big companies. But other facility, we refurbished and requalified this quarter. That's oncology capability-wise, it's one of the big facility. We have 2 modules on that, modules are ready now. We just qualified all equipment.

So now validations are going to start in that oncology. And also, if you can see our portfolio, current portfolio, almost 50% are in oncology. Our strategy to develop last 2, 3 years products, we did mix of 2, 3 categories. One is to maintain sustainability, whatever is the top line bottom line. Second is how can we grow midterm by developing either large volume products where we have strength on intermediates or where we have strength on formulation, go to backward integration. That's how we focus in one category.

And third category is most going towards a little more complex areas, which includes oncology. That's how we moved out slowly from mature products to little complex products or little late launches like NCE-1 or a little more complex. So that's how our current portfolio is 50-plus percentage are all new molecules, either complex or oncology. So it's going to be a big oncology portfolio we are going to build next 1, 2 years.

So markets, that's how we do 150-plus products we have commercially but all over the world. And this is not the only Linezolid company, as I explained earlier. I don't know how many companies really have this strength. Our 10 products give 60-plus thing. So it's very well diversified. It's not depending on one product like Linezolid. All products contribute a lot and all products gross margins are pretty good.

And the second point, what I mentioned, out of 10 top products, 6 products, we are the market leader. It's not only -- of course, Linezolid, we have our own patent. We are the market leader. Other than Linezolid, we have 5 other products. We are the market leaders in the regulatory market. Of course, these 6 products are everywhere in the world. That's how we can differentiate. So we have a very strong portfolio. That's how we are moving on that. If you have any further question, I can answer -- sorry?

**Kiran:** So the follow-up question then is, sir? Sir -- yes, sir. Go ahead.

**Hari Babu:** Sorry, another 2 things you asked, antiretroviral. Even though we filed a few products when we built this company, our intent was to go to a fully integrated platform antiretroviral. Since we had intermediates, we have strong capability on both manufacturing as well as understanding the market. But we realized looking at the competitive profile, how the market is going on. So we decided to drop antiviral products soon.

So that's how we rationalized a couple of products. Why our topline has not grown too much from last year first half to this, only 5%, whereas EBITDA has grown drastically. That's one of the reasons we rationalized a few antiretroviral intermediates. In fact, we lost almost INR150 crores, INR200 crores topline. We downsized that commodity business.

And moving towards more complex or more new products. That's how all our intermediate business, we are moving out from commodity, large volume where small guys can compete differently. We are moving to either innovative players or big generic companies where we can tie up long. And also doing a little more complex regulatory environment for new products because that's where we see the growth opportunity for intermediates, if you tie up with the regulatory and regulatory expectations are also growing day by day for intermediates.

That's where we see opportunity for us. That's how intermediate business is growing. And the third business segment, finished doses. So we have a manufacturing site in U.S. We do business only for U.S. at this point. But we are working actually how can we expand other markets, but that's going to happen next 3 to 5 years.

**Kiran:** A follow-up question. I just have a follow-up question, sir. In terms of revenues, we have reached -- again to Dr. Hari. We have leased about INR700...

**Moderator:** Sorry to interrupt Mr. Kiran, please fall back in the queue for further questions. The next question is from the line of Kaustav Bubna from BMSPL Capital.

**Kaustav Bubna:** So last time we spoke about the potential opportunities from this U.S. BIOSECUR Act. So just wanted to understand what's the update on -- how is this progressing? What is the update? Has it been approved? When will the benefits start flowing in? Could you give some updates over there?

**Hari Babu:** I don't see the current update, but what I heard actually is still it has to be approved in one house. Since now Trump coming in, everybody is expected that it is going to approve in other house also soon. but we have to wait and see. But more than approval, we see there's a positive trend last 1, 1.5 years. That's how CDMO companies are able to expand capacities and able to get.

And also, we also see some opportunities from big companies. So one is that when they are going to approve all those things. But irrespective of that, we see that positive trend coming with this to India. I think that still the Senate approval is pending. So maybe after the new government of Trump come in, they do that.

**Kaustav Bubna:** Okay. So basically, the Senate approval is remaining. And so I mean, you all are in the know-how, you all are close to this matter. Do you think there's a risk with Trump taking office? Or do you think it will aid the passing of this act?

**Hari Babu:** I cannot comment that level. But at a personal level, I don't see any risk it's going to happen. But official approval, nobody knows, but business is going to come to India. That's what I can tell you.

**Moderator:** The next question is from the line of Prashantkumar Hazariwala, who's an individual investor.

**Prashantkumar:** Congratulations for good improvement in EBITDA operating margin. But my question is like when we will see this kind of impact in profit after tax because when we come down to the profit after tax, there is nothing much left into the -- for the profit. So how do you see this? Like when exactly we can expect that we will get to some good level of profit after tax?

**Rajaram Narayanan:** Yes. I think -- thank you for this question. You should also look at it in the way in which post the merger, what we -- how the financials would move. And therefore, all that at this stage, I can say is that the way the business plans will emerge, we expect that at a PAT level, we would be beginning to accelerate on the delivery at that level very soon, yes, much earlier than we would have been able to do on a stand-alone basis on SeQuent.

**Prashantkumar:** So like for Sequent, when will -- what we had a plan for SeQuent? If we don't consider merger, what was the plan for SeQuent for about after tax...

**Rajaram Narayanan:** I think we are already beginning to move in that direction. If you see that in quarter 1 of FY '25, we had begun to turn positive on PAT. And by the fourth quarter of this year, we would begin to get the growth coming in. And therefore, FY '26 is where most of the incremental

growth, which would come into margin and EBITDA would flow through straight into the PAT, yes, Saurav...

**Saurav Bhala:** And just to add, there is already a very significant improvement in the PAT. H1 financial year '25, there was a negative PAT of INR588 million. H1 '25 debt is a positive of INR199 million, strong trend reversal and a growth of 134%. All this business upgrades takes time, and we -- directionally, we are already there, and we keep on going strongly in the direction.

**Prashantkumar:** So all right. And so what kind of cost -- esop cost we will have for next 1 or 2 years? Like how do we see this cost? Because it is dampening our profit after tax all the time and it's driving all -- it's not finishing. I don't know why, it's not like before 2, 3 years, we have started, but still it keeps on going on. how do we see esop cost?

**Saurav Bhala:** It is improving, and it will keep on improving, but unfortunately, we don't give forward guidance on specific numbers for a couple of years.

**Rajaram Narayanan:** All that I can say -- is that what I said earlier is that the scheme grant, which is the total number of shares which were approved for grant more or less have been exhausted with the last round of grants which happened this quarter, yes. So therefore, obviously, we should see that in the next 2 to 3 quarters, it should directionally start moving downwards.

**Prashantkumar:** So any ballpark number, like estimates in like INR1 crore, INR2 crores, right kind of thing? What kind of cost we can consider quarterly?

**Rajaram Narayanan:** We expect it to increase. It should begin to come down. And I think it's by the next quarter, we'll begin to give some more clarity on the rate at which it will come down.

**Moderator:** Due to time constraint, that was the last question for today. I would now like to hand the conference over to the management for closing comments.

**Rajaram Narayanan:** Thank you. Thank you, everybody, for participating in this call. And I hope that we've been able to provide you insights on our business performance and also the way ahead as a result of the proposed merger with Viyash. We are excited with the prospects and the journey ahead. We've already begun to see the results. And we thank you all for supporting the company. We will now end this call and wish you all a good day ahead. Thank you.

**Saurav Bhala:** Thank you.

**Hari Babu:** Thank you everyone.

**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.