Sequent
Proven Ability In Life Sciences

February 17, 2025

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: Transcript - Q3FY25 Earnings Call pertaining to Unaudited Financial Results (Standalone and Consolidated) for the quarter and nine months ended December 31, 2024

Dear Sir/ Madam,

We refer to our intimation dated February 13, 2025 regarding audio recording of Earnings call pertaining to the Unaudited Financial Results (Standalone and Consolidated) for the quarter and nine months ended December 31, 2024. In this regard, pursuant to Regulation 30 read with Part A of Schedule III and Regulation 46 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Transcript pertaining to the said earnings call for your reference.

The same is also available on the Company's website at
https://sequent.in/wp-content/uploads/2025/02/SequentScien-Earnings-Feb13-2025.pdf

Kindly take the same on your record.

Yours faithfully,
For **Sequent Scientific Limited**

Vora Yoshita Susmit
Digitally signed by Vora Yoshita Susmit
Date: 2025.02.17 18:07:12 +05'30'

Yoshita Vora
Company Secretary

"SeQuent Scientific Limited

Q3 FY '25 Earnings Conference Call"

February 13, 2025

MANAGEMENT:	**MR. RAJARAM NARAYANAN – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER – SEQUENT SCIENTIFIC LIMITED** **DR. HARI BABU - WHOLE-TIME DIRECTOR AND CHIEF EXECUTIVE OFFICER – VIYASH LIFE SCIENCES** **MR. SAURAV BHALA – CHIEF FINANCIAL OFFICER – SEQUENT SCIENTIFIC LIMITED** **MR. RAMAKANT – CHIEF FINANCIAL OFFICER – VIYASH LIFE SCIENCES** **MR. ABHISHEK SINGHAL – HEAD OF INVESTOR RELATIONS – SEQUENT SCIENTIFIC LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the SeQuent Scientific Limited Q3 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 touch-tone phone. Please note that this conference is being recorded.

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

Abhishek Singhal: Thank you, Rutuja. A very good morning to all of you, and thank you for joining us today for SeQuent Scientific's Earnings Conference Call for the third quarter and 9 months 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 Life Sciences; Mr. Saurav Bhala, CFO, SeQuent Scientific; and Mr. Ramakant, CFO, Viyash Life Sciences, to share the highlights of the business and financials for the quarter.

I hope you've gone through our results release and the quarterly investor presentation, which have been uploaded on our website as well as the stock exchange 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: Good morning, everyone, and a very warm welcome on the call for quarter 3 financial year '24-'25 results. We are now in the final quarter of this financial year, and I'm delighted to report that the company has continued to accelerate its performance on top line and on margins.

I will share the performance of the quarter in more detail as well as the progress on the merger with Viyash Life Sciences, which was announced in September 2024. I'm joined on the call by Dr. Hari Babu, Whole-Time Director and CEO of Viyash Life Sciences; and also joining on this call is Saurav, Chief Financial Officer of SeQuent; and Mr. Ramakant, CFO of Viyash.

Coming to the performance of this quarter, in quarter 3 FY '25, our consolidated revenues came in at INR3,908 million, which is the highest sales in any quarter in the last 3 years. This translates to a growth of 18.7% compared to the same quarter last year, that is quarter 3 FY '24.

At the end of the first 9 months of the year, revenue growth stands at 14% versus the first 9 months of last year. This growth is on the back of strong efforts on margin improvement through a combination of pricing, product mix and cost management. EBITDA pre-ESOP, for this quarter came in at INR494 million, represents approximately 64% growth over quarter 3 last year. When we consider the first 9 months of the year, EBITDA, pre-ESOP, at INR1,424 million, represents a 116% growth over the first 9 months of last year.

Our cumulative PBT at the end of 9 months has also grown to INR280 million, which is nearly 150% growth over the same period last year. Clearly, the momentum is evident in the results, and we are, therefore, confident of systematically improving on all parameters going ahead. I will share some qualitative highlights and more details are available in the investor presentation. There are obviously some developments globally, which are geopolitical in nature. While we are alert to the event, our focus is on our operations and our customers.

Starting with our formulations business. Our operations in emerging markets led by Turkey continues to grow in healthy double digits, both in local currency as well as in reported sales. Additionally, we are growing exports out of Turkey and our recent EU certification at the factory in Ankara will start giving us more opportunities. The formulations business in Europe is growing in volume as we introduce new products for Europe and other markets.

In Latin America, we have extended our operations beyond Brazil and into Mexico and Peru. In addition, we continue to build a global platform for gut health products based on natural actives, which are increasingly getting preference as users and regulators get stricter on the irrational use of antibiotics.

I had said last quarter that we are doubling down on India as a key market to accelerate growth in formulations. Our initiative project Udaan to reach more veterinarians with an expanded field force is now yielding results, again, with double-digit growth everywhere. We will increase our reach again next quarter and that should prepare the foundation for higher growth in the next year when the impact is annualized.

Coming to APIs. We see a positive swing in some therapeutic areas, especially in the deworming category. Our API revenues for the quarter have grown sequentially as well as versus the same period last year. Our factory in Mahad has received additional WHO pre-qualification approvals, and this should position us well for supplies to new formulators.

During the quarter, we also completed 1 new CEP filing. Our margins continue to hold or improve and we continue to drive the next phase of margin expansion with our new CIP initiatives. As discussed during the merger announcement, we will be very well positioned in R&D as a result of the merger with Viyash. You will hear more about this as and when we are in a position to share more information.

As we head towards the completion of this financial year, I am very glad that the tough decisions we took last year on creating a more profitable product mix, closing a high-cost operation in Europe, and driving cost improvement programs systematically have now helped us reach a place from where we can accelerate growth.

Our balance sheet is becoming stronger. And with the merger, it would be substantially strengthened to support an aggressive play in areas like health care for companion animals.

I will now hand over to Saurav to share the financial results of SeQuent Scientific Limited and then invite Dr. Hari to share the highlights of Viyash and the consolidated entity. Over to you, Saurav.

Saurav Bhala: Thank you, Raja. Good morning, everyone. It's a pleasure to be here today to provide the key highlights into our strong financial performance for both quarter 3 of financial year '25 and 9 months of financial year '25 as well. I will also share the update on the progress of our strategic merger with Viyash Group and SeQuent Research, one of our wholly owned subsidiary.

Starting with Q3 financial highlights for SeQuent, we achieved a total revenue of INR3,908 million for Q3 '25, delivering a strong year-on-year growth of 18.7% and a quarter-on-quarter growth of 6%. Our formulations business recorded INR3,008 million in revenue, registering a growth -- year-on-year quarter 3 growth of 19.2%, and a quarter-on-quarter growth of 8.9% on a constant currency basis.

The API business posted INR812 million in revenue, demonstrating a year-on-year growth of 16.1% and a quarter-on-quarter growth of 4.5%. The gross margins improved by 300 basis points on a year-on-year basis, rising from 45.2% to 48.2%. There was also a 120 basis improvement on a quarter-on-quarter basis from 47% to 48.2%.

Our EBITDA, pre-ESOP, for the quarter amounted to INR494 million, reflecting a strong year-on-year growth of 63.8% and a quarter-on-quarter increase of 10.5%. The EBITDA margins, pre-ESOP, stood at 12.6%, delivering a healthy improvement of 340 basis points on a year-on basis. Our PBT registered a very strong growth in Q3 of 444% from INR15 million last financial year Q3 to INR81 million in the current quarter.

Coming to the highlights of -- for the 9 months ended financial year '25, for the first 9 months of financial year '25, we achieved a total revenue of INR11,497 million, reflecting a year-on-year growth of 14%. The formulations business recorded INR8,849 million in revenue, contributing a year-on-year growth of 21.9%. And the API business posted INR2,509 million in revenue, reflecting a year-on-year growth of 7.8%, both on a constant currency basis.

The gross margin improved by 280 basis points from 44% to 46.8%, driven by focused strategic actions on our -- such as sales mix optimization initiatives and very selective price increase across regions to maintain our margins.

EBITDA delivery stood at INR1,424 million, which is a significant growth of 116.5% year-on-year basis. Our EBITDA margins, pre-ESOP, increased by 590 basis points on a year-on-year basis, increasing from 6.5% in 9 months financial year '24 to 12.4% in 9 months ended financial year '25, setting our strong focus on driving profitable growth across segment.

On a YTD basis, our PBT also grew very strongly by 149%. Coming to other key items. In Q3 financial year '25, we recognized a net monetary gain of INR5 million on account of the hyperinflation accounting adjustment as required under Ind AS 29 for our Turkey operations, which is -- which remains to be in a hyperinflation economy.

During Q3 '25, a forex loss of INR52 million was reported, primarily driven by the sudden depreciation in currencies of Brazil, BRL, and euro depreciation against the USD. Large portions of this forex loss is unrealized in nature and is required to be accounted following the relevant accounting standards. Further, the impacted currencies, as mentioned earlier, we have already started seeing a partial reversal in the subsequent month.

Regarding the tax and PAT, I need to highlight in Q3 last financial year '24, a onetime significant tax benefit was recognized in our Turkey operations due to change in hyper accounting methodology as mandated by Turkey's regulatory requirement. This has resulted in a onetime exceptional tax benefit for -- which was accounted in financial year '24, but would pertain to prior years from financial year -- including financial year '21, financial year '22 and financial year '23.

If we exclude this onetime Turkey exceptional tax benefit in last financial year, then even the PAT has shown a very strong growth of almost about 65% on a like-to-like basis for Q3 financial year '25.

Coming to update on the merger process progress. The merger scheme, which was approved by our Board of Directors, involves the merger of Viyash Life Science Private Limited and its subsidiaries as well as SeQuent Research, one of our wholly owned subsidiaries with SeQuent Scientific Limited. I am pleased to report that we have made good progress so far on the merger process as follows. The Board approval, as communicated last time, was received on 26th September, after which the process started.

The Competition Commission of India has already approved our application and the approval was received on 21st of Jan 2025. The scheme is under review by the exchanges and SEBI and that is going very fine. We expect the SEBI approval with changes to come soon. And hence, we remain on the guided time line for completion of the merger process.

In summary, our strong financial performance in Q3 and 9 months for the financial year '25 underscores the success of our strategic initiatives, focus on driving operational efficiencies and our unwavering focus on profitability. The progress we have made in our M&A activities further strengthens our foundation for long-term growth and expansion. We remain committed to delivering value for all our stakeholders and are confident in our trajectory towards the sustained growth.

With that, I now hand over the call to Dr. Hari to provide the details on the performance highlights of the Viyash Group. Thank you.

Hari Babu: So thank you, Saurav and Raj, for the update. I'm very happy to share we have strong consistent performance and also update on the merger scheme. Viyash recorded strong performance in this quarter with acceleration in revenue growth and margin expansion year-over-year. Our core strength remain R&D, manufacturing, IP and also business development activities.

These have been supplemented by efforts made over the last 24 months in development of high-margin complex products and also promoting those products, rationalization of low-margin business, which includes intermediate and continuous cost reduction program on the various products.

For this quarter, Q3 FY '25, our revenue grew by 19% year-on-year to INR384 crores and adjusted EBITDA grew by 68% to INR68.5 crores to the corresponding quarter last year. Viyash had EBITDA margins of 17.8%, which is almost more than 5.2% of corresponding quarter last year. Our 9 months FY '25, our revenue grew by 10% and EBITDA grew by again 42%. And our 9 months EBITDA margins of around 17.4%, again, which is almost more than 3.9% over last 9 months.

So 9 months adjusted EBITDA is INR189 crores. In line with previous quarters, we have generated INR38 crores of free cash flow in this quarter, and INR177 crores of free cash flow in the last 9 months. Borrowings reduced by INR28 crores in this quarter and INR122 crores in the last 9 months. And of course, our net debt-EBITDA ratio is continuously coming down, which is at 0.4x now.

We want to reiterate that a lot of costs below EBITDA, particularly exceptional items, which are mostly related to merger activities. And one of the amortization of acquisition of intangibles when we acquired a few companies, actually, we had amortization intangibles, are largely noncash and nonrecurring. So Viyash adjusted PAT, we presented in the investor presentation is an indicator of our steady-state stand-alone property -- properties, sorry. And also, it's reflected in our cash flows and continuous debt reduction.

Business growth is supported by investments in multiple strategic areas and a strong operating base, which we'll cover now. Our business has strong momentum across portfolio selection, validations, filings, launches and adding more geographies and more customers.

New product launches and filings. We launched 2 new products in this quarter in the U.S.A. and have filed 3 products in this quarter for U.S. and Europe. And as you know, our portfolio is very strong. We have 25 products in pipeline across different stages, and we completed 4 validations in last quarter. And also, we received 5 regulatory approvals in this quarter from various agencies. And these are in addition to what we do, CDMO and also CMO for big pharma as well as big generic companies.

We had touched upon our complex portfolio, market leaders, focus on innovative relationships. And our management team is continuously focused on cost improvement, of course, continuously adding new products and geographies in this quarter.

And now let me take you through merger update. For FY '25 Q3, combined revenues of 2 entities grew by 19% and EBITDA grew by 66%. And the combined EBITDA stands at INR118 crores this quarter, with 15.2% margins. For 9 months, combined revenue grew by 12% and EBITDA grew by 67%.

And combined EBITDA for 9 months is INR332 crores with 14.8% margins, of course, with improvement of 4.3% from last year. The combined net debt-EBITDA ratio is now 1.2%. It's continuously coming down, whereas in last quarter, it was 1.4. It's coming down to 1.2. And quarter-on-quarter, you can see that it's continuously coming down.

So now we have started to plan integration of 2 companies and realizing synergies, and we have received CCI approval as Saurav mentioned, and started prioritizing our 3 key synergies with multiple life areas. Of course, we also mentioned in a couple of areas in the investor presentation, and a few of them are like R&D. We strongly believe we have strong R&D strength and IP focus. Definitely, it's going to accelerate development for animal health products and which can realize very quick, I can say.

And of course, optimization is a key for entire group since we have large network, multiple sites, 15 sites all over the world. And our network optimization and also combined procurement can create a big synergies -- and in 12 to 15 months, we can say.

And coming to the business, we should be able to leverage our key relationship from both companies. Of course, we already started seeing from last quarter, a few companies started actually giving us more business from both sides. It has a couple of Viyash contacts actually adding business to SeQuent. At the same time, as we mentioned earlier, a couple of big pharmas also started approaching Viyash and a few products.

Others, of course, all other areas supporting functions, we started integrating. Maybe next 6 to 8 months, we are going to complete this integration activity. And most probably, all the synergies we are going to present sometime in Q1 FY '26 to our Board, and we'll share to the investors.

So the merger scheme, as Saurav mentioned, we already received CCI approval, and we're waiting for SEBI approval some -- and we are expecting sometime this month or next month. Once we receive SEBI approval, we'll go to NCLT and it may take another 6 to 8 months. And I think overall activity is going to be complete by September or October, as mentioned earlier.

So with this, I will open for questions or clarifications. Thank you, everyone.

Rajaram Narayanan: Rituja, we can take the Q&A, please.

Moderator: Thank you very much. The first question is from the line of Jagdish Sharma, an individual investor. Please go ahead.

Jagdish Sharma: Congrats for an excellent quarter, especially on sales and EBITDA. I have a few questions. The first one is like what is our driving growth in the emerging markets and Europe? My second question is like are margins improving in all our business segments? My third question is, will we cross INR1,500 crores of sales in FY '25? And my last question is like what is -- why is our PAT is not moving at par with our EBITDA this quarter? And what is our plan for it?

Rajaram Narayanan: So these are the 4 questions?

Jagdish Sharma: Yes, sir.

Rajaram Narayanan: Okay. So let me answer some of them. So firstly, first, what is driving growth for us, both in emerging markets and Europe? It's the work which has been done in, as I said earlier, on the product mix as well as new launches and pricing. Specifically, if you look at it, our biggest market and emerging markets is Turkey.

And in Turkey, we have stabilized the business, and we are seeing growth coming both on volume as well as on pricing. In addition, exports, which is a priority in Turkey because it is a good base, and we have a strong manufacturing unit there. Our exports have started growing out of Turkey to the neighboring North Africa, Middle East region.

As far as Europe is concerned, the volume growth has started in Europe. We are also launching -- in fact, we have launched new products in the area of companion animals and that is getting us growth. And in both these markets, growth typically keeps happening because in the first phase, you launched within the country.

And then in subsequent quarters, you start expanding it to the other markets. So you would launch in Spain, which is where we have the base, and then we start expanding it to other countries in Europe and sometimes even outside of Europe. So that's how -- once you launch a product, you are able to, over the next 2 to 3 quarters, get your growth by expanding it. So that's really the reason why we're getting the growth over there.

The second piece in terms of margins, I think we have shared before, margins are a combination of product mix. They're a combination of some work which has been done in the area of cost improvement program, and, of course, pricing, particularly. In an inflationary economy, we've managed to get prices without actually having any volume impact of significance.

The third question, will we reach INR1,500 crores in India on SeQuent? I obviously can't give you any guidance on that. But mathematically, if you look at it, I think you can calculate what the fourth quarter could be, assuming that it is pretty much close to the current one. So we should be getting past that, at least in terms of the direction we are in right now.

I think the last one you have is on why is our PAT, and I think Saurav explained that. It was -- one is that in the same quarter last year, we had had an exceptional gain in terms of a tax benefit in Turkey on account of local accounting requirements. And therefore, if you really look at it, it is more an impact of that base, which is why it is looking like the PAT has declined. But otherwise, on a stand-alone basis, I mean, if you exclude for that, PAT is, in fact, also improving.

Nevertheless, I think going ahead, our focus is as we look at both finance costs as well as our capital investment, which we will be through the synergy of the merger improving, we should be able to consistently improve on our PAT.

Moderator: The next question is from the line of Shivani from Monarch Networth.

Shivani: Congratulations on the good set of numbers. Sir, a couple of questions. One, I wanted to understand that what is the seasonality pattern. We have -- while we are seeing growth in emerging markets quarter-on-quarter, in Europe and Indian market, the growth was slightly muted. So one, I wanted to understand that.

And secondly, if you can also give me a split between -- split of growth from product launches, volume and price. Third, I wanted to understand the Zoetis product status in Indian market. And lastly, what is the weight of companion annual health products in our portfolio?

Rajaram Narayanan: Okay. So first question on seasonality. I think seasonality is there in every individual country. If there's no seasonality as such across the sector, so therefore, you will find different impacts coming on that. For example, in India, typically, the seasonality is there because quarter 3, you tend to have a reduction in terms of some of the prevalence of diseases as well as the requirement for these medicines.

So you will find typically sequentially quarter 3 tends to be lower. But I think year-on-year, you will continue to see the growth because of the activities that we are doing. And the same thing applies in other countries as well. It is a combination of when the -- what's the kind of mix you have, whether you have companion animals, whether you have production animals.

So there is always seasonality in this in different countries. But I think what we should be focusing on really, we should be looking at is on a year-on-year growth, which is coming in the respective markets. And we are happy to say that, that is something which is consistently coming over there.

The second question on volume, new products and price. Pricing typically has been different. I think in most countries, we would be expecting a pricing growth of between 3% to 5% on a full year basis. And in markets like Turkey, of course, it would be substantially higher going well because of the high inflation because the inflation there is well into 40% plus. And therefore, we obviously take prices much more.

So typically, in our basket, if you look at it -- if you say that we grow between 10% to 12%, you should have about 1/3 in each of this. So you tend to have about 4% to 5% coming from pricing, about 4% to 5% coming from volume. And then at this point of time, about 2% to 3% coming from new products.

That's the typical combination which is there in this business. But our effort is really to accelerate the contribution of new products. Last quarter, we began to see a higher combination coming from -- contribution coming from new products because of some of the launches which we have done have now begun to roll out to other markets.

On the Zoetis distribution status, yes, we've been -- there has been a product which was discontinued by Zoetis some time ago due to manufacturing issues. And therefore, that is still impacting us in terms of part of the base. But we understand from our partners that they have made alternative arrangements to resume manufacturing of that product.

And therefore, we expect it to come back somewhere in the next 2 to 3 quarters because it is rearrangement of some of their manufacturing facilities and, therefore, they have put a stop to that for some time. But that should continue and come back to us in 2 to 3 quarters. But obviously, we are -- our growth is without that. So we are now beginning to grow even the business, which is without the Zoetis distribution at a much, much faster rate than what we had earlier.

On the contribution of companion animals, varies country to country, depending on whether it's distribution or not. India, we don't have companion animals. In Europe -- in some parts of Europe, it is as high as 30% to 40%. So when I would say on an aggregate basis, it is probably between 5% to 8% companion animals' contribution right now on the front. Thank you.

Moderator: The next question is from the line of Harshit Dhoot from Dymon Asia Capital.

Harshit Dhoot: Just a few questions, sir. So the emerging market did phenomenal business during the quarter. So can we assume that this run rate is sustainable going forward as you have launched your products in the multiple new countries? This is the first question.

And the second question is, as we have started manufacturing from the Turkey and we have started exporting from that market, so what kind of the cost benefit that we are getting? And what -- how should we foresee the gross margin going forward?

And the third thing, we are hearing the bulk cases have started to rise again. Do we have exposure there, specifically in the U.S. markets because we report the Europe, emerging markets and all? So are we having exposure there? And the last thing that you highlighted earlier, the margin expansion will continue with the new CIPH initiatives. So can you please throw some light on that?

Rajaram Narayanan: So I couldn't hear you very clearly, but I think the first question of yours is that if the emerging market growth, is it sustainable? And what would it continue, right?

Harshit Dhoot: Yes. Yes, sir, because its quarterly run rate was very strong, right? From INR115 crores, INR120 crores, we have jumped to around INR137 crores. So this quarterly run rate is sustainable?

Rajaram Narayanan: So I think we are -- more than the run rate, I think the fact that we should be growing in double digits in emerging markets is what we should anticipate going ahead on a quarter-on-quarter basis. There will obviously be some variations depending on which of the emerging markets is seasonal, non-seasonal at that time. But -- and again, our emerging markets are founded on a very strong basis.

Turkey is a very strong manufacturing and local export base for us, so is Brazil. So these are both part of the emerging markets that we have. So it's not just a trading operation for us. Therefore, we expect that you should -- we should grow at double digits in emerging markets year-on-year. On a sequential basis, I guess, we'll hopefully show continuing growth all the time.

On the second part, on Turkey manufacturing, it's -- of course, there is cost competitiveness having in Turkey. But Turkey, we already have an existing plant. Our growth is coming for 2 reasons. One, we have used Turkey as a base to start exporting to regional North Africa and Middle East markets, which are fast-growing animal health markets, particularly for the portfolio, which is presently available in Turkey. And we have an injectable manufacturing plant, which is not many companies have an injectable manufacturing plant in that region. And therefore, that's an area which is for us growing.

Second is that we closed our operation in Germany last year. But some of the products from Germany are being transferred to Turkey. So we do not want to lose the market opportunity for those products. So one time, we do have a drop in sales, which used to be earlier from Germany. But now we expect those sales to be revived out of Turkey. And therefore, some of that will come back and that's how we see growth coming from Turkey.

Gross margins, I think in Turkey, as you begin to get volume, you should get some advantage because at this point of time, the currency is not sort of declining as sharply as it used to, say, 2 years ago. And the government policies generally have also been very prudent, and we are seeing, therefore, a stability in that market.

I didn't understand the question on U.S. markets, whether the current situation is impacting us?

Harshit Dhoot: No, no. So sir, do you have exposure in the U.S. market, because we are hearing that bird flu cases have started to increase there? So are we catering to the bird flu segment as well?

Rajaram Narayanan: What segment? So we don't do any formulations to the U.S. at all, okay? From SeQuent, there is, of course, a strong business, which Viyash has, and I'll ask Dr. Hari to talk about it on the exposure to the U.S. But we do not -- on the API side, of course, we have a U.S. FDA plant in Vizag, and we have 9 of them in Viyash. So there is APIs which are going to the U.S. But at this point of time, I'm not seeing any big risk on that. Dr. Hari, on the U.S. part?

Hari Babu: I think instead of seeing risk, we can see the opportunity for us. So human health, we have U.S. presence, of course. Good part is we have a manufacturing site in the U.S. If at all there is a positive, that will be upside for U.S., if any actions comes from Trump.

Other area where we can see a lot of potential for animal health. So U.S. generic is catching up a lot for animal health that we see last 6, 8 months. Lot of clients are asking actually to launch those. I think we can see the U.S. potential for API, selling API -- animal health API business to the U.S. And also maybe in future, we are going to explore formulation for animal health also. And we don't see any risk at this point. We have a small exposure of U.S. formulation. But definitely, that will have some additional advantage for that.

Harshit Dhoot: Okay, sir. So do we also cater the bird flu segment as well?

Hari Babu: No. Bird flu not right now.

Rajaram Narayanan: No.

Harshit Dhoot: Okay. And on, sir, opex part. This quarter, it was a bit higher side. So you described it in the PPT that because of this inflationary environment in Turkey and spending for the domestic market, so from what -- how should we see the opex part going forward? It will kick into the revenues going forward and then it will normalize on the margin part? How should we see that?

Rajaram Narayanan: I think clearly, going forward, we expect that as the merger proceeds and as the scale improves, opex as a percentage should start moving down, at least for what is not business development-related opex, right, from the normal sort of G&A and things like that. But I think here, there has been a onetime thing. It's not exactly one time because there has been a union wage settlement, which has happened in Turkey because of which the base has got revised. And then it remains steady for union arrangements for a long period of time. So that's why there's a bit of change in the opex.

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

Bharat Sheth: Mr. Rajaram and Hari Babu, congratulations on good performance. Sir, first of all, I have one question on -- some of the questions on SeQuent. Now export out of Turkey has already started, so how do we see going ahead that can play as a natural hedge so that, I mean, the currency fluctuation really do not affect us?

Rajaram Narayanan: So is there any other question, Bharat bhai?

Bharat Sheth: Yes, yes. And second is now when we have started also in -- expanded our footprint to Mexico and Peru in South America. And third, you have stated in your opening remarks that now we'll see the accelerated growth. So if you can give some color on the SeQuent part, that will be of great help. And then I have some strategic questions. I'll come back.

Rajaram Narayanan: Okay. So the first question on Turkey, this thing, yes, we import APIs and some packing materials, etcetera, into Turkey, either directly or indirectly. And our exports today have -- from this -- last quarter onwards, actually started exceeding the imports that we have. And therefore, we now have a pretty natural hedge as far as currency is concerned, and we expect the exports to keep growing well ahead of our imports.

So while, of course, that does not mean that we will not have currency fluctuations during an in-quarter thing. But on an annualized basis, we are protected from that. And that has been an effort now for some time. And so that, of course, will keep growing in our view on exports on Turkey, yes. So that's -- unless something very adverse happens, the business is now naturally with exports more than imports.

The second question, Bharat bhai, you had is on what we are expanding and what is going to be the growth. Yes, I think we are now in a position -- we have been guiding for a while that we expect to do double-digit growth on the business, both on top line and on margins, EBITDA, we were looking to move closer to 15%. I think we are now in a position where our top line should grow double digit more and more comfortably as we began to expand into some other countries.

I can't -- Mexico, Peru, etcetera, were not part of our agenda earlier. But now we have started using Brazil as -- because it's stabilized over there as a base for the rest of Latin America. And these are strong markets for animal health. So these will come. We'll probably share a bit more when we have stronger sort of base. Right now, it's early quick improvements that we are getting in these markets.

I will leave you to ask the other questions to Dr. Hari, the strategic ones you had.

Bharat Sheth: Yes. Sir, I mean now over the past 9 months, our growth was a little -- I mean, kind of a high double -- high single digit or low double digit. From this quarter onward, we have -- our growth is high teens. So how do we see -- I mean, from here onward, we are -- I mean, growth as well as EBITDA margin, whatever we have expanded, where do we see?

Hari Babu: So let me start with Viyash. So you must have seen actually year-on-year, it's close to 20% growth on top line. And EBITDA margins are very high. As I explained in my previous quarter meetings also, if you can see our opex percentage versus the top line, opex remains stable. Why? Because our utilization is keep on growing quarter-on-quarter. Since opex remains same, our EBITDA margins are continuously growing.

So this is going to continue definitely in the next couple of years. Why? Because still our capacity utilization is around 60%. And we have at least, if not 100%, 20%, 25% free capacity to add product. And also, as you know, API business, every year, 10%, 15%, we can improve capacity without adding any capex while doing cost optimization. So this will continue. Definitely, we'll grow double digit. Absolutely, no issue on that.

And also our recent investments last 12, 24 months, you must have seen a lot of products have been developed and filed. And recently, we also added onco portfolio. A lot of products are coming in the onco portfolio. And in addition to that, we also started developing a few things for CDMO, especially for big pharma and also the big generic. That's continuously adding.

Last 2 quarters, it's added reasonable in addition to whatever our internal products we filed. Last 9 months, we must have added at least 6, 8 products under the CDMO or CMO activity. So that activity is growing. So Viyash is going to grow continuously, definitely double digit. And EBITDA will be stabilized at some point of time, may not be 60%, 70% level, but it will be always better than the top line growth next couple of years.

And when it comes to combined, and definitely, I can say combined company growth. As we mentioned, the synergies -- a couple of synergies, we are very actively working on that. So while improving the capacity utilization, same as Viyash, combined entity also margins are going to grow because we don't need to add any additional people or much capex. Of course, there will be some optimization capex continuously. But it's going to benefit combined entity near term, midterm as well.

And the synergies, whatever initiated, definitely, it's going to contribute in midterm. A couple of things may not contribute in short term, whatever the sales expansion or whatever synergies, optimizing a few things. So it's going to show maybe in 12 or 18 months. So we are pretty confident this will continue to grow. Next 3 years, actually, definitely, we'll be a very strong growing company combined entity.

Bharat Sheth: Hari Babu?

Hari Babu: Yes, sir. Yes.

Bharat Sheth: In current year, I mean FY '25, we will be -- combined entity will close somewhere around INR3,000 crores. And for '27, we were looking for kind of INR4,000 crores. So with this kind of now background and you're having -- coming both the company more closer, so do we see that there is an upside room to grow above INR4,000 crores at the end of '27 because the kind of portfolio, geographic expansion and newer -- higher growing category is helping us?

Hari Babu: Normally, okay, as a principle, we don't give guidance, but we can expect very strong growth in FY '26-'27. Definitely, '27 is going to be much, much stronger because whatever initiatives, it takes 24 months. Already, we started those initiatives. But FY '26 also, we'll be growing very strong, both top line and bottom line. I can't disclose the number, what is that, but we'll reach our expectations.

Moderator: Sorry to interrupt. May I request Mr. Bharat Sheth to return in the queue. We have participants waiting for their turn. The next question is from the line of Thomas from AlphaCredit.

Thomas: Would it be possible to provide some more color...

Moderator: Sorry to interrupt. May we request you, Mr. Thomas, to speak a bit louder? We are unable to hear you.

Thomas: So currently, the SeQuent margins are closer to 12.5%. If you could provide some color on what will help to ensure that it moves closer to the 15% band over the next 12, 15 months? That was one. And two, on Viyash, as we hope to have higher growth, the new opportunities, which we are looking on the CDMO space is more in the area of human health or we are exploring more in the area of animal health? If any color could be provided?

Hari Babu: Okay. I will answer both. SeQuent margins improvement, 12.5% right, to high teens, whatever we are talking. So it's actually -- gradually, it's going to increase in the next 12 to 18 months. A lot of initiatives have been made in SeQuent, okay? Viyash is going to help a lot in R&D as well as manufacturing. And SeQuent continuously doing cost optimization. There are 2 parts. One is optimizing, manufacturing network and R&D, it's going to create a value, which will definitely improve margins.

And also utilizing manufacturing network. So we see a couple of opportunities to grow API business, especially in a lot because the most important area we are focusing next 12 to 18 months is the API improvement. Formulation is doing pretty good. So we are pretty confident actually in the next 12 to 18 months, SeQuent is going to grow more than 15%, 16%. And the 2 fronts, one is optimizing those things and helping from Viyash perspective.

The second question you were asking Viyash, actually, the CDMO and CMO. So as you see, we initiated CDMO last 1.5, 2 years, with big pharma -- mostly life cycle management with big pharma. Already, we supplied a few products, in fact, 3 products, which are their large volume products. We supplied and also they started qualifying our products. But you know innovators, it takes normally 2 to 4 years depending on the market.

So we started validating, they started filing. So that business is going to start in FY '26, a few advanced intermediates as well as API. But definitely, FY '27, it's going to contribute substantial amount on those things. Those products are going to qualify as per their global requirement as a primary source. That means whatever they have business, we are going to get major chunk from that.

In addition to that, a couple of areas, especially complex molecules, we tied up with a few big generic companies, okay? Even though it looks like generic, but it's not generic, it's a generic plus one where it requires lot of chemistry involvement as well as side things. So we tied up with few molecules with them.

So most of those things are coming for launch after 27. These are complex molecules always, you know. Either actually limited competition molecules where there were no players, or NC minus one kind of thing. So we are working with a few big generic companies on CMO. And also there are a few part of [Gen 0:50:58] development projects at R&D and manufacturing, and also marketing.

So these things are going to contribute big from FY27. Of course, even this year also it's contributed well on validation quantities. We did at least seven, eight products validation for in these areas. So it's continuously to grow, because one advantage with this is when you tie up with big companies, you have advantage to launch early. Anchor customer to launch day one. That will boost a lot for companies. So we can see a lot of activities, CDMO, CMO, in these areas next two years.

Moderator: Thank you. The next question is from the line of Himanshu Binani from Anand Rathi.

Himanshu Binani: Congratulations on a good set of numbers.

Moderator: Sorry to interrupt you, Mr. Binani. We are unable to hear you, sir. Your voice is breaking.

Himanshu Binani: Congratulations on a good set of numbers. So sir, I have like a few questions largely for the margin side. So just wanted to have a sense in terms of how do you guys actually calculate the contribution of new products in that particular quarter. So in your opening remarks, you highlighted that the contribution has been like somewhere around 2- to 3-odd percent. So these are the products which are actually launched during this last quarter? Or how do you see that? So is it the products which are getting launched over the last 1, 2 years?

And the second question is largely on the margin side. So maybe if you can like help us understand in terms of the margin or the gross margin differential between the new launch product and the traditional ones?

Rajaram Narayanan: Are you asking specifically for SeQuent or for both the companies?

Himanshu Binani: Sir, both the companies.

Rajaram Narayanan: Okay. So maybe...

Hari Babu: So I think one is that 2% may be related to SeQuent, right? But overall, actually, the new products, there are 2 things. One is when you supply validation quantities, margins is one thing. When you launch new products, margins is other thing. So in that, if I look at the margins for our API business, Viyash perspective, there are 2 types of launches.

One is matured product launches. And the other one is the new product launches like you are entering day 1 for developed markets. So matured product launches, it's more or less same as our average regular manufacturing product. So when it comes to new product day 1 launches, those launches are much better than the average mix of regular products.

So it's both. Actually, we do both. Actually, a few products, Viyash, we do day 1 launch and also a few products. If we are lucky, we may get exclusivity, still we are hoping actually a few exclusivities soon. Those margins are pretty good. But day 1 margin product launches, margins are much better than at least maybe I can say more than 10% from the existing base. I think

SeQuent also is more or less applicable thing, whatever we launch, the new product launches are better than...

Rajaram Narayanan: Yes. Typically, new product launches tend to be improving the margin. That is the direction. Second, on formulations in general, we look at -- it takes about 24 months to -- from the launch in the first market to registration and expansion in the last targeted market, which we will have, right? So when we talk about growth coming from new products and formulations, it's typically from sales of the product from 24 months before to now. That's the broad period taken for registering sales. So the product should have been launched in or introduced first time in the last 24 months.

Moderator: The next question is from the line of V.P. Rajesh from Banyan Capital.

V.P. Rajesh: Congratulations on a good set of numbers. My question is more around the synergies and more qualitatively. Just trying to understand on the distribution side, what kind of synergies do you expect? And on the manufacturing side, meaning like if you use the same facilities both for human products as well as the animal product? And similarly on the distribution side, if you can elaborate a little bit more if the selling process or the distribution partners are same? So that's really what I was trying to get a better handle on?

Hari Babu: Okay. Thanks for that. I think 2 parts. One is distribution. Since both businesses' distribution channels are different, we don't see much synergies in near term in distribution, especially formulation distribution. When it comes to API distribution, definitely, there's a cross-selling opportunity. We started seeing for both companies where Viyash have 2 business, generic actually is a lot of traction coming from that, [inaudible 0:56:48]

Moderator: I'm sorry to interrupt you, sir, we are unable to hear you clearly. Can you please repeat?

Hari Babu: Okay. Is it clear now?

Moderator: Yes.

Hari Babu: Okay. I'm sorry for that. I don't know. So I started with the distribution. Formulation distribution, since both companies' distribution channels are completely different, we don't see much synergies in the near term. Long term, once we start establishing or promoting human health, formulation in these countries are different. But at least near, midterm, we don't see much synergies for distribution and formulation.

When it comes to API distribution or sales, but definitely we see a lot of synergies in that cross-selling. Already, we see some of the important things are going up. Since animal health business has started catching up in U.S. generic, we see a lot of cross-selling opportunities for animal health. Same way when we started talking to big pharma, especially CDMO, and we see some opportunities for Viyash on that perspective.

Okay, the second question, other synergies, definitely short term, midterm, we see a lot in especially API, R&D, manufacturing, sales as well as other functions. So already, we started integrating R&D. We have started helping SeQuent in R&D, both new products development as well as optimizing existing products. That's going to add a lot of synergies very soon. Then manufacturing, we are going to -- is it clear now? Am I audible?

Moderator: Yes. In between, again there was a disturbance.

Hari Babu: I don't know, a lot of noise is coming somewhere. So when it comes to manufacturing, this is a bigger area since we have large manufacturing network, large procurement setup and large supply chain or distribution thing. And we see a lot of synergies in that. So a couple of things, network optimization and procurement synergies, whether actually buying together or definitely optimizing some of those things. And definitely, shared service or support functions, we are going to bring together.

There will be some optimization on those areas. But these are the major areas, R&D, manufacturing, support functions. We can't give the exact number, but I see there's a large potential. It's not only closing the site. One is, how best we can utilize more. But definitely, if it's required, actually, we'll optimize 1 or 2 sites also to benefit that. We can see substantial synergies in these areas next 18, 24 months.

Moderator: Ladies and gentlemen, due to time constraints, 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 for attending this call. It is -- we're very happy that this has been a strong quarter, and you are seeing the direction moving up. And I think we will have more to report on both the business as well as the progress of the merger. And as Dr. Hari said earlier, we will have more granular sort of details in terms of some of the synergies and other plans that we have going ahead. So we look forward to seeing you at the next call, and thank you, and have a good day.

Hari Babu: Thank you, guys. Thank you.

Saurav Bhala: Thank you all.

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.