Sequent
Proven Ability In Life Sciences

February 21, 2023

To,

BSE Limited	**National Stock Exchange of India Limited**
Corporate Relationship Department	Listing Department
Phiroze Jeejeebhoy Towers,	Exchange Plaza, Bandra-Kurla Complex,
Dalal Street, Fort,	Bandra (East),
Mumbai – 400 001	Mumbai – 400 051
Scrip code: 512529	Symbol: SEQUENT

Subject: Intimation under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Earnings Call Transcript for the quarter and nine months ended December 31, 2022

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 quarter and nine months ended December 31, 2022.

The same is also available on the Company's website at https://sequent.in/pdf/financial/2022-2023/Q3/SequentScientificLtd-Earnings-Feb15-2023.pdf

Kindly take the same on records.

Yours faithfully,
For **Sequent Scientific Limited**

KRUNAL SHASHIRAJ SHAH

Digitally signed by KRUNAL SHASHIRAJ SHAH
Date: 2023.02.21 11:01:07 +05'30'

Krunal Shah
Company Secretary & Compliance Officer

"Sequent Scientific Limited
Q3 FY 2023 Earnings Conference Call"
February 15, 2023

MANAGEMENT: **MR. RAJARAM NARAYANAN – MANAGING DIRECTOR – SEQUENT SCIENTIFIC LIMITED**
MR. SHARAT NARASAPUR – JOINT MANAGING DIRECTOR – SEQUENT SCIENTIFIC LIMITED
MR. P.V. RAGHAVENDRA RAO – CHIEF FINANCIAL OFFICER – SEQUENT SCIENTIFIC LIMITED
MR. ABHISHEK SINGHAL – HEAD OF INVESTOR RELATIONS – SEQUENT SCIENTIFIC LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '23 Earnings Conference Call of Sequent Scientific Limited. 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, Abhishek.

Abhishek Singhal: Thank you. A very good morning and thank you for joining us today for SeQuent Scientific's Earnings Conference Call for the third quarter and 9 months ended financial year 2023.

Today, we have with us Mr. Rajaram, SeQuent Managing Director; Sharat, Joint Managing Director; and P.V. Raghavendra Rao, CFO, to share the highlights of the business and financials for the quarter. I hope you've gone through our results release and the quarterly investor presentation, which have been uploaded on our website as well as 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 may be forward-looking in nature and must be viewed in relationship with risks pertaining to our business. After the end of this call, in case you have any further questions, please feel free to reach out with the Investor Relations team.

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

Rajaram Narayanan: Thank you, Abhishek and good morning, everyone. A very warm welcome to our quarter 3 and 9 months financial year '23 earnings call. Joining me on this call is our CFO, Mr. P.V. Raghavendra Rao and Mr. Sharat Narasapur, the Joint Managing Director of the company.

First and foremost, a quick update on Turkey. We are deeply saddened by the devastating earthquake and the consequent loss of lives and property in Turkey. Our thoughts are with the victims, their families and all those who are affected by this tragedy. While the earthquake has impacted 10 cities, it's majorly in the south-eastern region of Turkey.

I would like to report that our manufacturing facility, our offices, which are located in the northern region of the country are not impacted. All our employees and their families are safe, and we are providing any kind of assistance which is needed, through our associates and the community around while closely monitoring the development.

Now coming to our quarter results, I'll share the headline numbers and some key drivers of performance, while Raghav will then get into more details on the financials. I'm pleased to report that this has been a stronger quarter for the company where we have seen a clear upward movement of business in most geographies as well as the categories we are operating in, and this is reflected in our results.

At a consolidated level, the company has achieved sales of INR 375 crores in this quarter, i.e., quarter 3 FY '23. This represents a sequential revenue growth of 11% over the last quarter, which is quarter 2 FY '23.

Our EBITDA before ESOP cost has come in at INR 27.7 crores, and this represents a 300-basis points improvement over the previous quarter, and 85% sequential growth in absolute EBITDA over the previous quarter, i.e., quarter 2 FY '23. So these results have come in on the back of several initiatives and actions that have been initiated, and I'm really encouraged by the efforts of all our employees and associates globally who are working towards achieving this improved outcome.

During the first 9 months in the year, we have seen several challenges in the macro environment, such as volatile raw material prices, surging utility costs and, of course, issues around the supply chain. There were also some challenges around stricter implementation of regulations in the usage of antibiotics by the European Union and outbreak of the lumpy skin disease in cattle in India in quarter 2, and the significant volatility in global currencies, all of which have had a direct or indirect impact on the overall market demand. We, however, believe that such challenges give us an opportunity to take bolder actions and create a competitive advantage and which we try and do by listening to our customers, allocating resources more effectively and focusing on cost improvement initiatives.

As mentioned in our last concall, we are continuing with our efforts to improve our operational framework across markets and customer segments in both formulations and APIs. We have now set up dedicated teams and taken external assistance to undertake a comprehensive program on process improvement, productivity enhancements, and optimizing our operational and manufacturing footprint.

In fact, we are seeing directionally an improvement in our gross margins starting quarter 3 itself. Coming to our API business, I'm happy to share with you that we crossed the INR 100 crores revenue mark this quarter delivering a sequential quarter-on-quarter growth of 16.5% over the previous quarter, i.e., quarter 2 FY '23.

Our focus has been on growing this business through deeper engagement with our customers in regulated markets as well as with the top animal health players in the industry. The contribution from regulated market customers has come in at over 70% this quarter, which is an improvement over recent quarters and in line with our strategic priority. The business in API is now well placed as we continue to invest further in upgrading our facilities and strengthening the capabilities of our team. SeQuent will stand to gain when the demand recovers as we continue to build stronger relationships with the key players in the industry.

Our second thrust has been in accelerating our new product pipeline and scaling up our R&D facilities and capabilities. During the quarter, we submitted 1 new U.S. VMF filing and 1 new CEP filing. We now have a total of 27 U.S. VMF filings, 12 CEP approval and a portfolio of 35 commercial APIs which we can offer to our customers all over the world. The development phase of our pipeline is now on an accelerated path and we remain optimistic to add new products and customers to our portfolio. Our R&D and process development teams are also driving programs on cost reduction and yield improvement so that we can remain competitive for our customers. The manufacturing operations of the company are also running with the high standards of quality, compliance and safety.

Now coming to our Formulations business, the momentum was sustained in quarter 3 with a 5.1% growth in constant currency terms on a sequential quarter-on-quarter basis. We have recently aligned our geographies in the Formulations business as per our strategic growth plans, and these are in 3 buckets: Europe, Emerging Markets without India, and India.

So first, the European business. The European business has started to stabilize. It has achieved a double-digit growth of 11.3% in constant currency terms over the previous quarter. This business has been facing significant macro environmental headwinds as well as challenges specific to the industry like energy costs, etc. But we have been in the journey of concerted efforts to improve the European operations, and we are seeing the results coming in, and the first signs of those are there in quarter 3. We are also revamping our product portfolio, renegotiating some of our contracts and working through at a more efficient cost base, which will position us well for the future. We are on track to launch new products, and we have made a foundation for the new portfolio to meet new customer requirements, especially after the challenges to antibiotics usage.

Coming to the India business. The India business performance continues to remain steady during the year. To some extent, this quarter's performance has been a bit muted compared to the previous quarter. And that's because of seasonal variations which are there in the business cycle and also the market impact of the outbreak of lumpy skin disease, which affected the livestock segment. But we are seeing an accelerated development of new product launches and aligning up a range of innovation for the coming years. The trajectory for the India business remains upwards on a long-term basis, and we continue to maintain the growth momentum on a 9-month basis already. The formalities related to the acquisition of Tineta Pharma Private Limited, which we announced in the previous quarter, are ongoing right now, and we will share further updates with you as the transaction progresses.

Coming to our Emerging Markets business. That's without India. This is a well-diversified business across different species of animals as well as geographies and have continued to maintain a strong growth momentum for the year. While this particular quarter would have seen a growth of 6.3% in constant currency terms. On a 9-month period, we have seen an impressive double-digit growth of 22%, largely driven by our operations in Latin America. The challenges of hyperinflation in the Turkish economy continues. We do see some stability in the exchange rate in the recent months. Our local manufacturing presence gives us, however, a competitive advantage to operate in this very key large market. We are also looking at increasing our exports out of Turkey. So overall, the Emerging Markets business has performed well, although currency depreciation has impacted some part of the financials.

And as we are rewiring our Formulation business, you could see that we are building a business which is developed on the foundation of new relevant products, competitive cost structures and innovation. So by now, you would have observed a few key themes for the company. The first is a strong focus on margin improvement through strategic initiatives on costs, productivity enhancements and operational excellence across all businesses, a sharper choice of customer segments, markets and the product portfolio we wish to operate in, and finally, growth map which is based on innovation and a few select inorganic moves that we would make. We believe that our diversified presence within the animal health industry positions us very strongly to keep growing and delivering increased value to all our shareholders and the stakeholders.

So I will now hand over to our CFO, Mr. Raghavendra Rao to give you an update in more detail on the financial performance. Over to you, Raghav.

P.V. Raghavendra Rao: Thank you. Thanks, Raja. And good morning, everyone. I will now briefly update on the key numbers for the current quarter and 9 months of FY '23.

Our revenue for the quarter is at INR 375 crores, up by 11% Q-o-Q and 10% in constant currency terms. The API business recorded revenues of INR 107 crores in this quarter with a 16.5% Q-o-Q growth and 13.6% constant currency growth. Our Formulations business contributed to INR 259 crores to the top line with an 8% Q-o-Q growth on a reported basis and 5.1% in constant currency terms.

In Formulations business, both Europe and emerging markets clocked robust growth numbers. Revenues from Europe were at INR 105 crores, which is a double-digit growth of 16.8% on Q-o-Q basis and 11.3% in constant currency terms. Revenues from emerging markets are at INR 125.2 crores which is a growth of 6.3% on a quarter-on-quarter basis and 4.4% in constant currency terms.

Compared to Q3 of FY '22 that is on a Y-o-Y basis, overall revenue growth for the quarter is 4.8%. The Formulations business has grown by 2.4% and API by 4.4%. For the 9 months ending December, our total revenue is INR 1,054 crores, up by 2.4% over the similar period that is for the previous year FY '22 and 6.8% in constant currency terms.

Our Formulations business contributed INR 743 crores out of this with a 3.7% growth on reported basis and 13.7% in constant currency terms. API revenue for 9 months is at INR 288 crores. Our gross margin is at 42.1% for the quarter compared to 41.4% in Q2 and 42% in the same quarter previous year in Q3 of FY '22.

Overall, operating costs remained flat despite the inflationary pressures. EBITDA pre-ESOP is at INR 27.7 crores as against INR 15 crores in the previous quarter. This is a growth of 85% over the previous quarter. EBITDA is at 7.4% of revenue against the previous quarter, 4.4%. Reported EBITDA is at INR 18.8 crores, which is 5% of the revenue from operations. This is a growth of 2.5x over the previous quarter EBITDA, which was at INR 5.1 crores.

We have INR 1 crores of acquisition-related costs in the P&L for this quarter as well. We had an exchange loss of INR 4.6 crores in the current quarter, mainly given the euro moving from INR 80 per euro at the start of the quarter to INR 88 per euro within the 3 months. We have some borrowings and payables in some geographies, which has caused this impact.

Due to inflation in Turkey, which continues to be above 100% over the last 3 years on a cumulative basis accounting under Ind AS 29 which is Financial Reporting in Hyperinflationary Economies continues to be triggered for us.

Accordingly, the financial statements of subsidiaries in Turkey have been prepared in accordance with this Ind AS 29. this has impacted our consolidated PBT by about INR 1.7 crores for the quarter.

We continue to work on bringing in efficiencies in our operations across the globe and across the value chain, as elaborated by Raja earlier in his commentary. Our inventory is trending downwards. However, working capital appears higher over the previous quarter on account of higher receivables, driven by higher sales.

I take a pause here, and thank you all for your support. I request for the forum to be now open for Q&A.

Moderator: We have the first question from the line of Rushabh Jain, an Individual Investor.

As a current participant is not answering we move on to the next question, which is from the line of Rahul Maheshwari, an Individual Investor.

Rahul Maheshwari: Sir, my first question remains around the Europe business. Our cc growth in Europe has been 11% on Q-o-Q basis. So what were the key drivers for this growth? And secondly, our Europe business growth has been muted over the last year or 2. So what's the growth rate that we are targeting for this market going forward?

And my second question relates to our India business, which has declined at around 10% sequentially. So what has led to this steep decline? And you have highlighted India to be a core growth market for us. So what's the growth rate that we're targeting for this market.

Rajaram Narayanan: Thank you, Rahul. I mean many questions over there. So I'll probably pick up one at a time. So coming on to Europe, of course, the last couple of years have generally had the overall impact of a more sort of muted economy. But in recent times, of course, we have the issue also with the Ukraine war, which resulted in higher costs and some issue around demand. But as we are seeing, as we said before, we have put in initiatives around restructuring our portfolio. We are seeing growth coming in on some of our new products and also in some select markets within Europe.

We operate not just in Spain, we are also operating in Belgium, Netherlands and some parts of Scandinavia. And that has helped us correct some of the actions. We are getting some growth, which is coming in now in Europe. So that's why this quarter is seeing a better performance. But yes, over the last few quarters, the general macro situation has kept the demand muted.

Going ahead, hard to say it, but I think if this quarter is any indication, then directionally, of course, we should see and some growth coming in from Europe as well. And also, of course, as I said, the effort is on improving our overall margins in Europe. So that's where we are seeing some improvement coming in the coming quarters.

The second question, which is around India. India is a priority market for us. The growth in India does sort of vary depending on some seasonality as well as some impact, which has been there in terms of feed prices, etc., for cattle. But on a secular basis, it is a growth market, which should be more in the higher single digits early double-digit kind of a market. This particular quarter is more a function of 2 things. One is that there is the seasonality in the livestock cattle business. This quarter tends to be a little lower than the earlier quarters in general. Added to that, there was an outbreak of the lumpy skin disease for cattle last quarter, which did see some additional buying of medicine and that, therefore, sequentially may seem to be a little lower this quarter than last quarter. But we see this clearly as an important business, which should give us a growth certainly in the higher single digits in future or the early double digits.

And that's how we've been growing in the past as well. So it is, and also our efforts right now in terms of improving the portfolio in terms of new products and other initiatives are in that direction. I hope that answers your question.

Rahul Maheshwari: Yes, sir, that answers my questions. And my last question is relating to the Tineta business. So can you update us what is the progress post the acquisition?

Rajaram Narayanan: So as we had said in our last call, we are looking to close the transaction we have indicated end of March. So we are right now still completing the various transaction formalities between the 2 parties. It is dragging a bit, but that is something that is still in progress right now.

Moderator: The next question is from the line of Rushabh Jain, an Individual Investor.

Rushabh Jain: Thank you for the opportunity. My question is on the API business. So sir, after 2 consecutive quarters of some INR 100 crores revenue, our API business has crossed INR 100 crores in Q3. So is this number a sustainable base? And are we confident of achieving this run rate in FY '24 as well?

And secondly, sir, what's the outlook for our API business over the next 3 years? Like what growth initiatives are we taking to revamp this business after the recent muted performance?

Rajaram Narayanan: So, I'll answer the first one and bring in my colleague Sharat on the second question. But first, in terms of how do we see the business. I think there is a certain stability in the run rate now. As we said in the past, this INR 100 crores kind of a quarter plus/minus, would be the kind of rebased number that we should be looking for API.

And at the same time, we do see that with our share of regulated markets customers slowly increasing as well as the whole set of new filings and products that we have. We would be working towards growing this business. The focus is also right now on margin improvement in this business and building a portfolio for the future.

But in run rate terms, as we get into FY '24, while I can't sort of give you any guidance, but I think we've reached some kind of a stable run rate at this point of time. Now the second question, which is there on the next 3 years? And on what kind of initiatives are there, Sharat, maybe you can just give us some sort of flavour.

Sharat Narasapur: As you are already aware, 70% of our business in the API comes from the regulated markets. And for any business to really materialize, a lot of efforts go in today, and I'm happy to state that our set of customers who are the stable set of customers, are talking to us on new businesses, new molecules, plus also the new portfolio, which we are strongly building up is also auguring well and I would say that, all in all, you would see early to mid-teens type of growth in the next 3 years.

Rajaram Narayanan: So, there are few areas in any of these - the new customers, new products and margin and profitability improvement initiatives. I think clearly, the effort is on building the regulated market portfolio and new customers. Sharat just shared, we have new products, which are ready for filing as well as those which are filed but need to be commercialized now fully. And of course, widespread margin improvement program.

Moderator: The next question is from the line of Sudarshan Padmanabhan from JM Financial PMS.

Sudarshan Padmanabhan: So yes, my question is, if I'm looking at the growth on a Q-o-Q basis, the EBITDA margin has improved. But if I'm basically looking at the structure of the business, I mean, we have Indian manufacturing and manufacturing based out of overseas. One is on the cost side.

The raw material cost has been moving up consistently. And I think the growth, if you can split it in terms of whether we are able to the, number one, price data and pass some of the raw materials. And number two, if the volume is trending up which absorb some kind of an operating leverage?

And number three, if we can talk about cost initiatives, which can reduce the cost permanently, that would give us some colour with respect to how we can expect the margin rates move?

Rajaram Narayanan: Raghav, do you want to take it?

P.V. Raghavendra Rao: Yes. I mean all the 3 levers, Sudarshan are at work right now for us. So for example, the costs despite that we saw a year, 1.5 years earlier and that kind of prices are not there, but still they have inflationary pressure, but we are able to pass on some of the cost hikes selectively to the customers. That’s on the cost side.

On the second piece, also, you are right in the sense as the volume of the business grows, the operating leverage does come in, and that also has played a part in the EBITDA growth that you see in the current quarter. And as we stabilize at these levels and move not towards from here, you will see the margins improving further. That’s on the second piece. I’m sorry, I did not notice – what’s the third piece question?

Rajaram Narayanan: Cost initiatives.

P.V. Raghavendra Rao: Cost initiatives. Yes, there are – I think Raja has also called out earlier in the call that there are some operational efficiency improvement initiatives that we have undertaken across the value chain and more particularly in the manufacturing piece of our business. And you will see going forward, the impact playing out in the numbers.

Rajaram Narayanan: So Sudarshan, we have two types of businesses, as you know, Formulations and APIs, right? So, on the Formulation side, the flexibility to pass on pricing is obviously more because it's more market driven and it is less driven by whole regulatory pipeline. On the API side, it takes a little longer. But because we are in regulated markets with fairly stable customers, that is something that takes longer to pass on, but we managed to do that. So, most of the pricing will come to us in the initial period from formulations. And of course, the scale of operations and the volume increases on API will get us also cost advantage even in places where we may not be able to pass on the price.

Sudarshan Padmanabhan: Yes, sure. And overall, how do we see the cost? Because, I mean, on the power side and transportation side, I mean, if I'm just comparing the second quarter versus third quarter and now in February, are we seeing a decline in overall costs?

P.V. Raghavendra Rao: Not decline, not particularly, Sudarshan, but stabilized, yes.

Sudarshan Padmanabhan: One final question before I join back. If I look at the utilization, I mean, on the Indian assets and the overseas assets, I mean what is the current utilization? And we talked about some new filings, launches, etc. I mean, where do we see the utilization moving up in both these India as well as the overseas plants next year and the year after?

Rajaram Narayanan: So, I think we should speak about India because that's really where the real capacity is created. The rest is more sort of market-specific capacity. So maybe Sharat on the capacity.

Sharat Narasapur: So, on the capacity piece, you see it used to be passed about 60%, 65% of utilization, which has inched up now because of several initiatives of backward integration to address the cost also. So today, the capacity utilization is about 70% to 75%. And as we move forward, I mean, looking at our portfolio and the business plan, there will be some investments as well coming in to make sure that we have always room for enough new business.

Rajaram Narayanan: And our overseas manufacturing, as I said, it's market specific, it's designed largely to service the portfolio there. And it's not something that, it's reasonably operating at full capacity as we were over there. And any addition is quite modular and limited in terms of capex.

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

V.P. Rajesh: My first question is on the growth guidance you give for the next few years, you mentioned that API will grow sort of double-digit to mid-teens. What is the guidance for the overall business including the formulation, any thoughts on that?

Rajaram Narayanan: So I think it's a little difficult for us to, I wouldn't want to give that kind of guidance because the Formulation business has a combination of multiple countries and the foreign exchange footprint involved in that. But suffice to say that definitely this year, which is FY '24, focus will be on the overall shape of the business around margin improvement and profitability. And as we get into FY '25 onwards, I think we would be closer to the double-digit kind of top line growth would be our plan at an overall company level. But certainly, in the short term, I don't want to give any guidance on that.

V.P. Rajesh: That's fair. And on the margin side, what do you think will be sort of the range in fiscal year '24 and beyond? Because earlier, we are aspiring for 20 plus kind of EBITDA margin. Do you think over the next few years or so, that seems unlikely case or that it's going to be lower than that.

Rajaram Narayanan: So I won't give you the, I can't sort of give you a number in absolute terms. I think if you were to look at FY '23 to be the kind of rebased year. We could say that we would have a margin expansion of 150 bps kind of a thing which we would be looking for. Okay. And we'll come to as we sort of get some of our initiatives coming in every quarter. We'll keep updating you on that.

V.P. Rajesh: And just on this quarter, if I look at your employee expense year-over-year, it has gone up quite a bit. So any colour on that? Is it inflation? Or are you adding some more talent on a more senior level, any kind of colour will be helpful.

Rajaram Narayanan: So a large part of it is actually some onetime costs, which we have taken overseas for restructuring some of the employees in terms of numbers, etc., and therefore, it has come. But these are not sort of -- these are onetime costs. Most of it is onetime cost.

V.P. Rajesh: And how much is that?

Rajaram Narayanan: I would say a substantial amount of the increase is onetime cost. We don't see that to be the trend going ahead.

V.P. Rajesh: So if one excludes for that, then your proforma EBITDA margin or would that be even higher, right? That's sort of...

Rajaram Narayanan: Yes. I mean, it can be concluded that way. So I think as I repeat, we are -- there are some one-time costs for which account for the increase in the abrupt increase in the employee cost, and that's one time.

Moderator: The next question is from the line of Ninad Sabnis from Sabnis Financials.

Ninad Sabnis: So I wanted to know that in Europe, we are gaining right now, we are gaining new customers as well. So there were energy prices and all these issues going on in Europe. So because of that, there is a demand shift and we are getting new customers, or the new customers, which we have gained and the demand we are seeing is this sustainable ahead since after this energy crisis comes down or things come to a normal in Europe. So the demand will continue? Or how is it?

Rajaram Narayanan: So, if your question is how are we getting new customers? Or are we getting new customers? So if you just split the business that really applies more to our API business, which is primarily a B2B kind of business. We do have an increase in our customers. And that is primarily because we are putting in efforts to increase in two ways: one, increase the share, basically bring in some of the new products that we have for new customers in regulated markets.

We are also, of course, expanding our presence in some of the other less regulated markets where we are finding customers who can give us stable revenues over a period of time. So it's actually geographical expansion, as well as within the same market looking for new customers for our new range of products. But there's also another piece, which is about increasing our share of wallet within the existing customer itself and all the 3 pieces put together.

As far as energy costs in Europe are concerned, for the Formulation business, yes, it does impact. It hasn't really impacted customers, but it does impact in the overall demand for our end customer. But that, I think, is stabilizing at this point of time. But purely from a new customer basis, I think you should look at API as being the key business to look at it from a new customer basis.

Ninad Sabnis: And since we have already know that we have a good facility in the India, are the entire facilities and everything investment like enough for catering the demand or new demand? Or are we looking for new capex?

Rajaram Narayanan: Sharat, can you?

Sharat Narasapur: Yes. So in terms of the capacity, I spoke about, I mean, there is enough room to expand our footprint in the key sites. So that's not a reason of concern at all. And as far as investment is concerned, yes, we have a very structured plan in line with the growth plans to investors.

Moderator: The next question is from the line of Ranodeep Sen from MAS Capital.

Ranodeep Sen: My question was with respect to -- I think in 2022, we acquired Nourrie and ventured into the Brazil pet market. With respect to India, where we see that the per capita GDP is increased and more Indians are opting for pets. Can we expect similar deals in India being announced? Or are we actively on the lookout for similar opportunities.

Rajaram Narayanan: Yes, we are looking at the companion animals area as a natural extension of our current business. But nothing to immediately sort of give you more colour on right now. But that's an area for us to look at.

Ranodeep Sen: All right. All right. My second question is, I think passing on the cost is a delayed process, and we understand better kind of into our EBITDA margin. But are we working on any mechanism where we have a pass-through mechanism with our clients so that in the future, we don't have these margin issues.

Rajaram Narayanan: So there are some contracts and discussions as I spoke, allow for that, but that is as and when the contracts get completed and fulfilled. But we must understand that in a B2B business, everything does not get automatically passed on.

So it's very important for the supplying organization, which is us to constantly work on the cost side of it as well. So, we do constantly sort of increase or pass on price increases depending on the contracts that we have. But the effort is also at the same time on margin improvement.

Moderator: The next question is from the line of Prashantkumar Hazariwala from Solitaire Financial Services Limited.

Prashant Hazariwala: Sir, my question is how many more quarters we will see ESOP provisions? And what will be the quantum for the sale?

Rajaram Narayanan: Sorry, could you just repeat that? We couldn't hear it clearly.

Prashant Hazariwala: How many more quarters we'll see ESOP provisions and quantum of the sale?

Rajaram Narayanan: As you know, this is a non-cash item, but Raghav will explain a bit more on that.

P.V. Raghavendra Rao: Yes, it will continue at least for the next 6 to 8 quarters.

Prashant Hazariwala: 6 to 8 quarters. And what will be the quantum? Yes. Currently, it is INR 9 crores kind of thing per quarter.

P.V. Raghavendra Rao: Yes. Yes. And you have seen a nominal increase for quarter-on-quarter from what we had last quarter in terms of the op cost. But having said that, it depends upon the number of tranches that have been issued, number of vesting period and when the vesting period gets fixed at and things like that. So you will see it trending down, but after a couple of quarters, not immediately.

Prashant Hazariwala: All right. What will be the -- like what kind of decline we can see, like from INR 9 crores to like INR 5 crores?

P.V. Raghavendra Rao: I'll not be able to guide you so sharply, but you will see a trend down after a couple of quarters.

Prashant Hazariwala: Okay. All right. So how do you see our debt position going forward? Because we are currently sitting on the quite heavy debt right now.

P.V. Raghavendra Rao: Yes. So debt on the balance sheet, we are conscious of that, but we are comfortable with the level of debt as it is now. And it will depend upon the opportunities available, Prashant and what are the opportunities available, what is the business expansion, what is the funding needed and things like that. But debt on the balance sheet as of now, we are comfortable with it as it stands now.

Moderator: The next question is from the line of Shashi Ranjan, an Individual Investor.

Shashi Ranjan: So my first question is to Sharat. 2 or 3 quarters back, management quoted that the falling Lira is helping SeQuent in competing in Turkey. Do you still stand by this thesis, sir? And if yes, can you please show us through the numbers?

Rajaram Narayanan: Sorry, the falling Lira is helping us compete in Turkey?

Shashi Ranjan: Yes, yes. Being competitive in Turkey and maybe in the business, product business that we are having over there, it was told by the management 2 or 3 quarters back. So do we still stand by that thesis? And if yes, can it be shown through the numbers that we are getting from Turkey.

Rajaram Narayanan: I'm not so sure whether that was the understanding. I think of the Lira devaluation, so one is an in-market performance, right? So in-market performance is really at the same currency with which you operate inside the country. And there, we are seeing growth in the business constantly, and that reflects really our ability to grow both volume as well as pass on price increases linked to that. As far as the depreciation of the lira is concerned, the only place that can potentially help us is if we increase our exports out of Turkey. That is an effort which is going on, we are slowly increasing our exports out of Turkey. But that's really not substantial enough to say that it will, it's going to make a big impact on the results. But right now, the thing is, yes, because we manufacture locally in Turkey, it helps us to be competitive.

Shashi Ranjan: The next one is from the results, we see that the inventories jumped almost 10x, can you throw some colour on that?

Rajaram Narayanan: Sorry?

Shashi Ranjan: There was jump in inventory. So there's jump in inventory. So where the inventories are stuck and some colour on that?

Rajaram Narayanan: In fact, as far as inventory is concerned, Raghav?

P.V. Raghavendra Rao: Yes, actually the inventories have gone down. Now I think what you're alluding to is from the increase in the working capital. The working capital in terms of numbers have marginally gone up. But in terms of number of days, even the working capital has gone down. So the inventory has actually gone down and in terms of number of days of sales, it has gone down significantly close to 9 to 10 days.

Rajaram Narayanan: Yes. If you're reading the presentation, investor presentation, it actually says clearly that it's come down by 10 days.

Moderator: Sorry, sir, you were saying something.

P.V. Raghavendra Rao: No, I was only adding to that. The working capital appears to have gone up. That's basically on account of receivables and this is on account of increase in sales.

Moderator: The next question is from the line of Rahul Maheshwari, an Individual Investor.

Rahul Maheshwari: My first question is relating to the Emerging Markets. So what has led to the slower growth in these markets? And historically, we have been having a growth of more than 20% in constant currency terms. During Q3, we have seen an 8% growth. So what are the reasons for that?

Rajaram Narayanan: So Emerging Markets, as you know, is a combination of different countries. We have Latin America. We have Turkey. We also have export presence in countries in Africa, etc., which are more export markets.

So this is more specific of the quarter because we are seeing. We saw some currency pressures in Turkey as well. And there are some markets, particularly in North Africa and some parts of Middle East, where some of the customers have been struggling with providing necessary hard currency which is required for some of these businesses. We expect that to be a short-term dip and move across into next quarter and get back. But if you look at really on a 9-month basis, this business has been growing at 20-plus percent. So, this is more a question of which market fires during which quarter as a total combination.

Rahul Maheshwari: Got it. And you mentioned about Turkey. So the recent earthquake, have our operations been impacted in any way? And what would be the outlook for this market in light of the recent event?

Rajaram Narayanan: So as I said right in the beginning of the call, the earthquake, of course, is quite severe as we have all read and seen. But our facilities are not located anywhere near the earthquake area, which was in the Southeast, and we are in the north of Turkey. So we are not impacted there as far as our operations are concerned. There are a couple of few employees who were working in that area, but they are also fine, their families are fine, and they have been moved to safer places to operate from. So, we are not impacted at this point in time.

Moderator: The next question is from the line of Giriraj Daga from KM Visaria Family Trust.

Giriraj Daga: My question is pertaining to the one comment you made on the margins. So you said FY '23 is the base margins. And if I look at the numbers, pre-ESOP numbers, so 9 months, we had about 6% kind of a number? And assuming that we do similar kind of number 7%, probably we went closer to 7%. So you're giving guidance of 50 to 100 basis points on the above number or what number? What is the base number?

Rajaram Narayanan: So I think we should, I'm not giving you guidance at all right now. But yes, I think FY '23 for us is more or less the place where we would have stabilized in that.

P.V. Raghavendra Rao: Yes. So did a couple of comments on the margins, particularly on the.. I'll start with the gross margin. See, gross margins right now have stabilized. We are not guiding anything, but there are actions that are undergoing in the operations, and we are very positive on this, and we will surely look at some improvement on this number. That's on the gross margin.

On EBITDA, what has been said earlier in the call is that the operating leverage has played up. And again, on this as well, all other factors remaining constant, the leverage on account of expansion in operations will further help us in expanding the EBITDA margins.

Giriraj Daga: So I understood the part, but I'll just harp a bit on this, sir. So ideally FY '23, whatever could have gone down, has gone down in terms of cost, in terms of raw material costs, in terms of freight cost, there are many variables out there as well. The point was that now do we again have an inspiration of again go back to 15% in next foreseeable which are whenever you have normalized time? Or do you think the base has shifted.

P.V. Raghavendra Rao: Yes. So I mean, 15% again, I won't be able to guide on that. But what we said is the margins you will see. I'm now talking about EBITDA margins, and you see them expanding further as we go into Q4. And that should be the base for us to improve on FY '24.

Giriraj Daga: No. I understood. That was the first comment you made. But like say, 15%, is that like do you think that business is doable, capable of doing 15% margin. I'm not asking you a timeline, but the business is capable of doing 15% margins, EBITDA margins?

P.V. Raghavendra Rao: Absolutely.

Rajaram Narayanan: Absolutely.

Moderator: Ladies and gentlemen, this would be the last question for today, which is from the line of V.P. Rajesh from Banyan Capital Advisors LLP.

V.P. Rajesh: So on the M&A side, aside from the current transactions that you guys are working on, what's the outlook in fiscal year '24? Are you going to take a pause? Or are you going to consider to be looking for opportunities.

Rajaram Narayanan: On the M&A piece. Yeah. So I mean, we are going to, we will be looking for opportunities but it will be something that we will sort of prudently evaluate both, essentially driven by the opportunity in the business and the transaction. But we are completely open to it at this point of time. And we have full support from our own Board as well as the promoters to make sure that what is required.

V.P. Rajesh: Okay. Got it. And last question, just on the inventory side in the channel or at your customer end. If you can just give some colour on that? Has it stabilized or come down? Or is it still you are seeing that they are sitting on inventory, just some colour will be helpful.

Rajaram Narayanan: On API, is where we can give you some colour on it. I think it was unstable and high some time ago. It has stabilized. But having said that, I think given the current macro situation, customers are in a stable sort of environment, they are definitely conserving cash and controlling their inventory.

V.P. Rajesh: Yes, just a quick follow-up. So you think they're starting to feel like given other comments you made, that they're starting to come out of the bunker mentality and start to sort of invest in new products and start to be a little more aggressive than they were in the last 2, 3 quarters?

Rajaram Narayanan: At the API customer end, yes, I think people are beginning to run a more stable business, I would say, and start looking at growth and expansion in their plans and portfolio. But as you know, in this, in the Formulation in parallel, it takes more time to commercialize those products, but the initiatives are there from most of our customers.

Moderator: As that was the last question, I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Rajaram Narayanan: Thank you very much to all of you for joining this call. I hope you found the discussion useful. We look forward to meeting you again in the next quarter, and we'll keep updating you on the developments as they progress during that quarter. Yes, thank you very much.

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