



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INZ000174034

RESEARCH REPORT

15th April 2019

SEQUENT SCIENTIFIC LIMITED

BSE : SEQUENT

Sector: ANIMAL HEALTH APIs & FORMULATIONS

BSE: 512529

View - BUY

CMP : Rs. 69.75

Target Price: Rs 116 (In next 12 to 18 mths)

BUSINESS BACKGROUND

Incorporated in 1985, SeQuent Scientific Ltd (SSL) undertakes its animal health business via Alivira Animal Health Limited, which is engaged in manufacturing veterinary APIs and formulations. Earlier SSL was engaged in the manufacturing human APIs, which has been demerged with effect from October, 2017. SSL is now involved in manufacturing 'Praziquantel' – a human and animal API and intermediates. SSL's subsidiary - SeQuent Research Limited - offers analytical services to the pharma industry. SSL's (consolidated) portfolio consists of about 23 commercial products in animal health API and over 500 products across 12 dosage forms. Post demerger of the human API business, it has 7 manufacturing facilities across India, Spain, Turkey, Brazil and Germany.

INVESTMENT HIGHLIGHTS

Strong Financial Performance in Q3 and 9 months of FY19 –

SeQuent reported a steady set of FY18 numbers with net sales at Rs 864.39 crs as compared to a revenue of Rs 683.57 crs last year, with EBIDTA placed at Rs 82.96 crs from Rs 37.51 crs last year with the PAT placed at Rs 10.18 crs from a negative PAT of Rs 2.41 crs last year. SeQuent has declared a dividend of 10% for FY18.

For SeQuent in Q3 of FY19 Sales are up by 20% at Rs 270 crs with EBIDTA up by 57% at Rs 36 crs with PAT at Rs 15.60 crs from a net loss of Rs 3 crs last year in Q3. EBIDTA margins in Q3FY19 stood at 13.10% from 10% in Q3 last year.

SeQuent is a pure Animal Health APIs and Formulation play –

SeQuent enjoys a comprehensive portfolio covering animal feed, nutritional and therapeutic classes and addresses multitude of species across therapy classes in key markets globally like Europe, LATAM, Turkey, India, Africa, SE Asia, France, US & Ukraine. Product wise SSL possess a wide range of dosage forms including injectables, powders, granules, solutions, suspensions and topicals with over 500+ Finished Dosage Formulations (FDFs) across 12 dosage forms & key therapies where SSL is a dominant player includes nonsteroidal anti-inflammatory drugs (NSAIDs) Antibiotics Anthelmintics, Vitamins Prostaglandins Hormonal Active Pharmaceutical Ingredients (API) predominantly in Anthelmintics and emerging Nonsteroidal Anti- Inflammatory Drug (NSAID) portfolio. Around 75% of SSL's revenues come from formulations while the rest come from APIs 50% of SSL's revenues come from global top 10 animal health companies with over 90% of its revenues coming from outside India. with 53% of formations sold in Europe, Emerging markets 21%, LATAM 12% & 14% Turkey as on Mar 2018.

KEY DATA

FACE VALUE	Rs	2.00
DIVD YIELD %		0.27
52 WK HI/LOW		89/42
NSE CODE		SEQUENT
BSE CODE		SEQUENT
MARKET CAP	RS	1721 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	57%
BANKS, MFs & DIIs	-	5%
FIIs	-	12%
PUBLIC	-	26%

KEY FUNDAMENTALS

YE	FY19	FY20	FY21
Rev Gr%	21	22	22
EBIDTA Gr%	63	26	24
PAT Gr%	391	46	40
EPS Gr%	391	46	40
EPS (Rs)	2.04	3.00	4.18
ROE %	7.50	10.06	12.71
ROCE %	10.81	12.52	14.30
P/E(x)		25	18
EV/EBIDTA(x)		11	9



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SeQuent decided to demerge its human API business to focus largely on the Animal Healthcare opportunity –

In order to have better management and clear focus in Animal Healthcare the company's board approved a draft Composite Scheme for De-merger of Human API business of SeQuent, which was a commodity API business of Strides Shasun Limited to Solara Active Pharma Sciences Limited (Solara).

Having reviewed the strategic success in building Alivira as India's largest veterinary company with annual run-rate revenues of US\$ 120 Mn (Rs 800 crs) along with future opportunities therein the Sequent management decided to focus on animal healthcare and free up management time and capital from the other two businesses.

The Human API business which though was profitable, would have required capex to build scale and exigencies. While the differentiated business model of focusing on old, small volume molecules did make the business hprofitable, with annualized revenue of around Rs. 300 crs, the business was still at a sub-scale level and being a B2B business, it needed a differentiated strategic direction to grow and deliver value

Therefore as per the composite arrangement which was finalized for the demerger included that every shareholder of Strides will get 1 equity share of Rs 10/- each of Solara for every 6 equity shares of Rs 10/- each held by them in Strides.

Every shareholder of SeQuent would get 1 equity shares of Rs 10/- each of Solara for every 25 equity shares of Rs 2/- each held by them in SeQuent. The appointed date for the Demerger was October 1, 2017

Based on the recommended share entitlement ratio, strides shareholders and sequent shareholders will hold 60% and 40% respectively of Solara The share entitlement ratio was arrived at after considering debt as at 31st Dec 16 pertaining to the commodity API business of Strides of Rs 425 crs and Human API business of SeQuent of Rs 75 Cr respectively.

The capital base of Solara would be Rs 25 crs against the current capital base of Rs 89 crs of Strides and Rs 49 crs of SeQuent

Going ahead the unbundling of Commodity API Business & Human API Business and consolidation into SOLARA will create an active pharmaceutical ingredients company in India with critical size, and is expected to unlock value by enabling the business activities to be carried out with greater focus and specialization for sustained growth

At the same time Sequent would continue to focus clearly on the Animal heathcare business globally which has a huge scalable opportunity to grow in the next 3-5 years ahead.



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Sequent has a well established Infrastructure to take care of its overseas and domestic clients needs in a optimum way –

Sequent have over 500 products focused towards production animals produced in GMP compliant facilities in Spain, Brazil, India and Turkey and R&D development in India, Turkey and Spain. Sequent is present in over 100 countries realising over 50% of the revenues from Europe.

SeQuent is also one of the world's leading producer of Active Pharmaceutical Ingredients (APIs) and the world's largest producer of Anthelmintic APIs and the largest producer of animal health APIs in India. Few Indian companies have the reputation and experience to be counted as a strategic manufacturing partner for top global animal health organisations. Sequent's ability to consistently deliver products on time has helped it emerge as a credible and reliable global supplier of animal APIs

Sequent also enjoys the distinction of having India's first USFDA-approved animal health API facility at Vizag. This is a world-class, state-of-the-art manufacturing facility with a annual capacity of 1,000 MT and is fully compliant to latest environment, health and safety (EHS) regulations. Sequent recently entered the United States, the largest animal health market post recent approval from USFDA

Apart from this Sequent has significant presence in regulated markets with Europe accounting for over 50% share and a global marketing presence in 81 countries and direct operations in 11 nations while global top 25 markets account for 80%+ of consolidated sales

SeQuent's Manufacturing Facilities –

SeQuent has 7 state-of-the-art manufacturing facilities in India, Germany, Turkey, Spain, Brazil & Germany with all major regulatory approvals

Business Vertical - Animal Health APIs Location - Vizag, Key Features of this unit Has India Approvals, USFDA and EUGMP Approvals with capacity of 225 KL with six clean rooms

Business Vertical - API Intermediates Location - Tarapur, India Has approvals from cGMP. With API intermediates facility with reactor capacity of 64 KL with two clean rooms

Business Vertical - Animal Health Formulations Location - Ambarnath, Has India Approvals, also from Uganda, Ethiopia and Kenya and makes Granules for injections and oral liquids

Business Vertical - Animal Health Formulations Location - Polatli, Turkey Enjoys Approvals like EUGMP and Turkish GMP and has capabilities to make Beta-lactam and nonbeta lactam injectable solutions/suspensions, intra-mammaries, oral solutions/suspensions, aerosol and pour-on, spot-on

Business Vertical - Animal Health Formulations Location – Location Barcelona, Spain Has Approvals: like EUGMP. with capabilities to make Liquids - oral solutions/suspension and solids (powders) - beta-lactam and non-beta lactam antibiotics. Specialises in nutrition products - veterinary premixes

Business Vertical - Animal Health Formulations Location Campinas, Brazil Has approvals from MAPA (Ministry of Agriculture) with capability of making Oral solutions, oral powders and drug premixes

Business Vertical - Animal Health Formulations Location Warburg, Germany Approvals with EUGMP. And capabilities making Sterile injectable including beta-lactam and hormones, oral liquids and oral powders Acquired in April 2018



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Pharma vs Animal health pharma

Despite being a sub-set of pharmaceuticals industry, animal health pharmaceuticals industry has quite different industry dynamics-

Favourable pricing environment-

Unlike the pricing landscape of human prescription medicines, where pricing pressure and price control have been the regulator's and government's major weapon to control burgeoning healthcare costs, the animal health market has seen little direct government involvement.

Unlike human pharmaceuticals industry where eventual buyers are insurance companies or government; in animal health industry, buyers are pet owners and animal farm owners. So, there is hardly any incentive for government to get involved to fix the prices.

Higher R&D productivity-

Unlike human health, the animal health industry is characterized by higher R&D productivity and shorter development time, as well as lower costs and risks. Animal health products generally show faster R&D timelines in all stages ranging from research to the regulatory review process.

Hence, in aggregate total development timelines are typically 3 to 5 years faster than in human drug development.

Limited competitive intensity-

Competition is lower in animal health industry. There is very limited overlap in product portfolio of 'Top-10' companies. Market is dominated by Big US pharma and a few European players.

However, regulatory scrutiny is increasing in Animal health industry. This is making companies to look out for compliant, reliable and high quality suppliers. And this provides an attractive opportunity for Indian players.

India Veterinary Healthcare Market

The veterinary healthcare market by diagnostics may be defined as the diagnostics tests that are carried out for the detection of various diseases in animals. These processes are executed through various methods that use blood, feces, and tissue sample from animals.

India's Veterinary Healthcare Market- Huge Market Opportunity Ahead

Veterinary healthcare is gaining importance as a result of manufacturers focusing on the production of products with specialized formulations and manufacturing processes. These are essentially beneficial for animal lovers and companion animal owners.

In India, Animal Husbandry is making a significant contribution to the national economy and socio-economic development of the country. With 10.71% of world's livestock population, India stands first in buffalo population, second in cattle and goat population, third in sheep, fifth in chicken and sixth in camel population world over with bovine population of 299.9 million, 135.17 million goats, 65.06 million sheep, 10.29 million pig, 0.4 million camels and 729.2 million poultry as per latest census.



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India stands number one in world for total milk production with an estimated milk production of 140 million tonnes with an average yearly growth of over 4% and per capita milk availability of around 307 grams per day.

Poultry industry which provides cheap source of animal protein has taken a quantum leap in the last few decades evolving from a near backyard practice to a venture of industrial promotion. The egg production in 2012-13 was 69.73 billion with an annual growth rate of 4.94% with per capita availability of 61 eggs. Meat production including poultry was 6.3 million tonnes. India is the second largest producer of fish and the second largest producer of fresh water fish in the world contributing 5.86% of the global fish production. The total fish production was 9.45 million tonnes (3.44 million tonnes for marine and 6.10 million tonnes for inland fisheries).

The total contribution of livestock sector at current prices was about 4063.5 billions which was about 21.58% of the total agriculture and allied sector. The livestock sector is contributing about 3.88% of total gross value added to the country at current prices and about 3.92% at constant prices (2011-12). The livestock sector has expanded by 5.5% during 2013-14 against the total growth of 3.7% during the same period in agriculture.

The animal husbandry and dairy sector play a significant role in supplementing family incomes and generating employment in the rural sector. More than 20.5 million workers are engaged in animal farming and about 87.7% of the livestock is owned by farmers of marginal, small and semi-medium operational holdings.

Key Demand Drivers here –

- Increase in the ownership of pet animals
- Increased awareness about animal health
- Technological advancements in developing animal healthcare diagnostics
- Population boom
- Stable economy, which is expected to result in increase in the demand for protein-rich foods

Key Restraints here include –

- Increasing spread of various infections in humans from animals through consumption of animal products
- Rise in competition for cultivated land
- Scarcity of arable land

Opportunities and Challenges going ahead –

The increase in exports of animal products from India to other countries and the fewer requirements of animal drug approval in the subcontinent are the major opportunities for the market to grow. However, declining veterinarian population and the lack of awareness about animal healthcare in rural areas of the country are some of the major challenges for the key players.



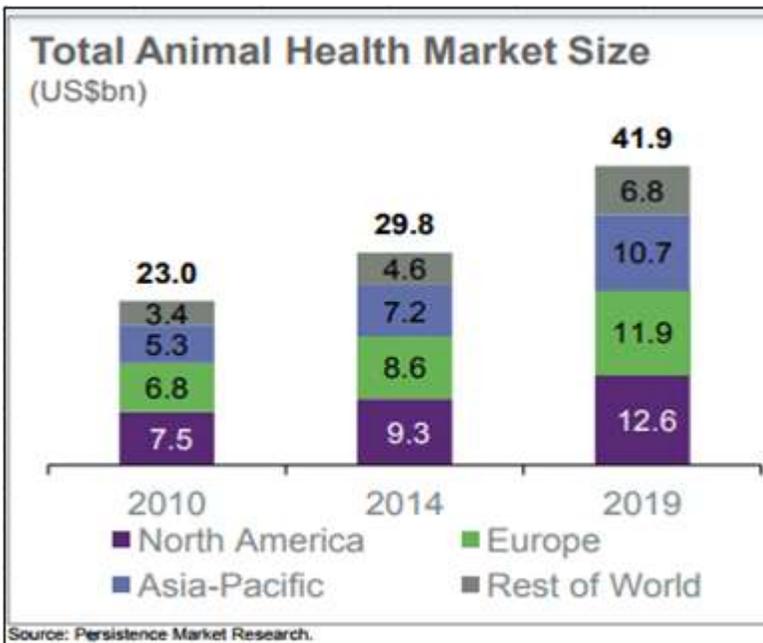
The Indian veterinary market can be broadly segmented based on animal types and diagnostics. Based on the animal type, the market is further segmented into farm animal health market (poultry, swine, fish, cattle, and sheep) and companion animal health (dogs, cats, horse). Based on diagnostic tools, the market is further sub-segmented into clinical chemistry, hematology tests, molecular diagnostics, diagnostic imaging and other veterinary diagnostic products.

Some of the key players in the market are –

- Bayer Animal Health
- Elanco Animal Health
- Merck Ltd.
- Merial (Animal Health division of Sanofi)
- Zoetis Animal Healthcare

- With the adoption of international lifestyle and changing food habits, there is an increasing trend of meat consumption. There has been a considerable growth in zoonotic diseases (disease transmitted from Animals to Humans), due to the upsurge in the animal population.

- Indian domestic Veterinary API market is around Rs 1,000 cr and is growing at a fast rate due to outsourcing opportunities.





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Globally also the animal health industry is on a growth trajectory, powered by the popularity of pet ownership and a global population hungry for meat and dairy products. The demand for production animals is likely to grow owing to enhanced focus on food safety, Changing lifestyles and habits, global population growth and focus on wellbeing of animals and increased demand for animal protein

The animal health industry is likely to grow at CAGR of 6% to US\$ 40 billion by 2022. The production animal segment which has the largest share, is projected to grow by over 5% to US\$ 24 billion in this period.

Disruptions caused due to tightening regulatory landscape provides Alivira significant opportunities for capitalizing investments in high standards of quality and compliance. The animal health industry, on the other hand, being a branded generics market with fewer patents and limited pricing pressures, allows for creating strong differentiators through strategic sales and marketing while benefiting from regulatory barriers to entry

The increased dependence on animals by humans for livestock, meat and companion purposes have acted as a growth catalyst for the animal healthcare industry.

The importance of livestock animals in the animal healthcare market has increased manifold as population growth, stable economy and increased livelihood has brought about an increase in meat consumption. The animal health industry is likely to grow at CAGR of 6% to US\$ 40 billion by 2022. Production animal segment is one of the fastest growing veterinary segments in the animal healthcare market accounting for around 60% of the total veterinary market. The production animal segment which has the largest share, is projected to grow by over 5% to US\$ 24 billion by 2022

The global animal health active pharmaceutical ingredient (API) market is projected to register an impressive expansion at 7.3% CAGR during 2017 to 2025. Market revenue is expected to reach US\$ 9.2 billion by 2025 from US\$ 5.2 billion in 2017. Technological advances and innovative production techniques are expected to be the main driver for growth for the animal healthcare sector. It is expected that the growth rate of 4-5% will be maintained throughout the outlook period.

The animal health industry has profited from the rise in pet ownership and increased spending on healthcare for pets. An estimated 65 percent of U.S. households have pets, and that percentage is expected to increase, said Kausche. According to a 2015 Harris Poll, 95 percent of U.S. dog and cat owners consider their pets as members of the family. "Companion animals over the years have moved from the barn to the garage to the living room to the bedroom to the bed,"

Because pet dogs and cats are now living longer, they are at increased risk for developing cancer and other age-related disorders such as osteoarthritis, cardiovascular disease, diabetes, and renal disease. Thus, age-related disorders provide niche markets for the animal health industry.

The rise in pet ownership and the projected increase in the growing global population's demand for meat and dairy products are not the only reasons that investors are paying more attention to the animal health industry. The R&D cost for a new animal health drug is about \$50 million to \$100 million compared to more than \$1 billion for a human drug

However, unlike the human biopharmaceutical industry, the animal health sector rarely has produced a blockbuster product. Merial's Frontline flea and tick control product is the only pet medication that has generated annual sales of more than \$1 billion, making it the first blockbuster drug for pets.



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Unlike human biopharmaceutical companies, the major animal health companies develop drugs and vaccines not just for one species, but for multiple species — chickens, cattle, pigs, and sheep, as well as horses, cats, and dogs. Because these different species do not share the same physiology and disease susceptibilities, animal health R&D is more complex than biopharmaceutical R&D

Globally according to Merial, (Animal Health division of Sanofi) to feed the world in 2030, animal protein production will have to increase by 30 percent from its current level, and without effective disease prevention and health management strategies, this could impact the meat and dairy industries in a big way.

The top five animal health industry market leaders and their reported FY2015 revenues are: Zoetis, \$4.8 billion; Merck Animal Health, \$3.3 billion; Elanco, a division of Eli Lilly, \$3.1 billion; Merial, €2.5 billion (\$2.8 billion); and Bayer Animal Health, €1,490 million (\$1.7 million).

CONSOLIDATION DEALS IN AH, 2011-2015

DATE CLOSED	TARGET	ACQUIRER	DEAL VALUE (\$M)
07/2015	Eli Lilly/Elanco: Sentinel	Virbac SA	
07/2015	Novartis: AH division	Elanco (Eli Lilly)	5,400
07/2015	Novartis (India): AH division	Elanco (Eli Lilly)	14
04/2014	Bioniche Animal Health	Vetquinol	55
12/2013	Gion Sanders: Lab. Segeval	CEVA Sante	
06/2013	Dosch: AH division	Merial (Sanofi)	
09/2012	Orsco SAS	Vetquinol	21
05/2012	Eurovet Animal Health	Dachra Pharma	176
10/2011	CentaurVA Animal Health	CEVA Sante	
07/2011	J&J Janssen: AH business	Elanco (Eli Lilly)	
02/2011	Alpharma*	Pfizer (Zoetis)	245*

*Represents value of Alpharma deal, which was part of the acquisition of King Pharma 2011 deal value: \$250M. Note: In addition to the above deals, several major transactions influenced the AH competitive landscape, including Merck & Co.'s merger with Schering-Plough (which included AH business interests) and subsequent divestiture of its 50 percent stake in Merial to Sanofi, plus Merial's acquisition of Novartis which included AH business from Zoetis.

Source: Thomson Reuters, company reports and news, PwC analysis

Going Ahead Animal health API outsourcing could be a big opportunity for Indian Players here –

Shifting the pharmaceutical manufacturing base to developing countries provides a huge opportunity for earning profits because of the lower cost of manufacturing, increasing FDI & government support.

Asia Pacific region has a huge opportunity for facility upgradations and less regulatory permissions provide potential for investment.

Asia Pacific (APAC) will continue to be the most lucrative region in the global animal health active pharmaceutical ingredient market, with sales exhibiting the second highest CAGR through 2025.

APAC has remained one of the largest API suppliers, at affordable costs. Governments across APAC have been making investments and focusing on local manufacturing facilities of APIs. Favorable policies offered by these governments have been shifting the focus of API manufacturers in moving their production bases to APAC countries, such as India and China. In addition, limited insurance or government intervention provides smooth flow to market growth in these regions



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SeQuent has a long history of Acquisitions since last 4 years largely to drive its formulations business –

SeQuent has ensured that starting 2015 onwards each of its acquisitions have reinforced its market presence and helped strengthen the management team in scaling up the business opportunity.

Ever since its first acquisition in 2015, SeQuent has made a series of well strategised acquisitions, including the latest one in Germany (Bremer), which adds injectables to its portfolio

These acquisitions created a footprint for Alivira in the European Union market as well as the key markets of Mexico and Brazil. This strategy has helped us establish a strong formulations business with presence in key markets of Europe, Latin America, India, Turkey and parts of Africa and Southeast Asia.

In the last four years, SeQuent has aggressively invested over US\$ 55 million in the formulations segment for nine acquisitions and organic operation launches in four countries. Today, the formulations comprises of 75% of its consolidated revenues with a significant presence in regulated markets with Europe accounting for over 50% share.

Also SeQuent enjoys a global marketing presence in 81 countries and direct operations in 11 nations. With top global 25 markets accounting for 80%+ of its total revenues.

SeQuent Acquisition History –

Particulars	Provet/Topkim	Karizoo	Evance	N-Vet/Fendigo	Lyka AnimalHealth	Bremer Pharma
Geography	Turkey	Spain	Brazil	Rest of EU	India	Germany
Acquired in	2015	2016	2016	2015	2015	2018
Mkt Presence	Turkey	EU & Mexico	Brazil	EU	India	Europe, MENA Russia & Africa
Facilities	EU GMP certified with injectables	EU approved with antibiotic & nutritional products				EU GMP certified with injectables
Registered Products	120+	115+				400
Ownership	60%	60%	70%	85%	100%	100%

Source – Company



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SeQuent's Business strategy going ahead –

Having aggressively invested over US\$ 55 million in the formulations segment for nine acquisitions and organic operation launches in four countries has transformed SeQuent in to a large quality player with formulations now comprising of 75% of consolidated revenues.

These acquisitions created a footprint for Alivira in the European Union market as well as the key markets of Mexico and Brazil. This strategy has helped us establish a strong formulations business with presence in key markets of Europe, Latin America, India, Turkey and parts of Africa and Southeast Asia with over 500 products focused towards production animals produced in GMP compliant facilities in Spain, Brazil, India and Turkey and R&D development in India, Turkey and Spain.

SeQuent also has a significant presence in regulated markets with Europe accounting for over 50% share

SeQuent intends to follow a regulated, market-driven strategy and has the largest API filings in the US among all generic companies globally, which puts it in a strong position in the dramatically changing dynamics in the API business with over 90% of our revenues come from outside India, and we have manufacturing operations in Spain, Brazil, Germany and Turkey apart from India

Going ahead SeQuent is now moving into the next phase of value creation, which will be driven by its expanding R&D pipeline in FDFs.

Going ahead SeQuent is aggressively looking at capitalising its global presence in key markets like Europe, Turkey & MENA, India, Latin America, USA and Emerging Markets like Africa, Middle East, North America, South East Asia, CIS, Ukraine, Egypt, Tanzania, Saudi Arabia, Qatar and Thailand.

Europe will remain the key focus as it is the 2nd Largest animal health market in the world. Here SrQuent has a dominant market presence in 6 of the Top 10 countries in EU and in 15 EU markets where it has a presence through distributors. SeQuent has around 95+ Product registrations here with last mile channel partnership for 27 EU companies

SeQuent intends to leverage its manufacturing base in Spain and Germany with R&D facility at Barcelona and establish Alivira front-end products presence across Top 10 european markets.

The Total market size within Europe was estimated around US\$ 8 billion in 2017 and is anticipated to grow at 4.4% to US\$ 12 billion in 2025

The second important market for sequent is Turkey which is a \$ 450 mn Veterinary market, which is growing at 8% annually and faster than global industry growth. SeQuent's key strengths in this market is that it is the 3rd largest cattle animal health company in Turkey (around 10% market share). With a large product basket of veterinary pharmaceuticals of around 120+ Products and a 40+ field force.



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SeQuent plans to leverage its comprehensive manufacturing capabilities for a larger market share in Turkey and MENA via an enhanced presence in cattle and sheep segment with expertise in injectable products especially penicillin and cephalosporins among others

The Third market where SeQuent plans to aggressively promote and sell its products is in India which is the 2nd fastest-growing market for animal healthcare. SeQuent's key strengths here include 50+ brands and a 150+ field force

SeQuent plans to drive the cattle business with a focused approach on select therapies of mastitis, infertility and probiotics and expand into vaccines, leveraging its tie-up with IDT Biologika, Germany and also expects to drive the newly launched pet division in India through multiple product offerings.

The Pet division launched in India has filed 4 products in EU and 14 in emerging markets resulting in 113 product registrations in EU and 141 in emerging markets

The Indian Animal healthcare market for production animals is expected to grow from an estimated US\$ 460 million in 2015 to US\$ 660 million in 2019 at a CAGR of 9.1%. SeQuent already has an established market presence with overall business revenue of US\$ 7 million (Rs 44.30 crs)

After India SeQuent is very keenly looking at increasing its market presence in Latin America which is dominated by the markets of Brazil and Mexico and which is incidentally the 3rd largest veterinary market in the world wherein Brazil and Mexico account for 6.7% of the global animal health business

The LATAM is anticipated to grow at 5.5% to US\$ 5 billion in 2025. SeQuent's key strengths in this market include 25+ Registered products in Brazil with GMP manufacturing facility, 11+ field force in Brazil, 28+ Registered products in Mexico, 7+ field force in Mexico. Going ahead SeQuent plans to capitalise its market presence here by adding new therapeutic products across nutritional additives and supplements by expanding into other LATAM markets.

The last piece where SeQuent plans to ensure that its products get a significant presence is the emerging markets which accounts for 1/4th of the global animal health market and is estimated to grow at a CAGR of 6.5%

Emerging markets includes markets like Africa- 14 key countries, where it has 85+ approved products and a 14 field force (direct & indirect), and South East Asia comprising of 5 countries, 11 Indirect field force, 65+ approved products. Other markets include MENA - 6 countries, with 12 Indirect field force, 24 registrations and CIS Ukraine with 5 registrations and a field force of 3.

SeQuent plans to enter new markets like Egypt, Saudi, Thailand, Tanzania, CIS and Qatar by focussing on innovative non-antibiotic product portfolio.

Following the Bremer Pharma Germany buyout which Sequent Scientific (SSL) announced in April 2018. Was founded in 1982, and was the animal health subsidiary of Zydus Cadila



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With about 400 product registrations, Bremer Pharma supplies vitamins, antibiotics and hormones. The product registrations are across Europe, MENA region, Russia and Africa.

The animal health market in Germany was valued at US\$1,227mn in 2014 and is expected to post a CAGR of 6.2% to touch US\$ 1,654mn in 2019. It accounts for about 14% of the European animal health market.

While there has been a rise in restrictions on the use of antibiotics in Germany, there has also been an increase in preventive care for animals among both farm-owners and pet-owners which will propel the growth of this market

Production animals account for about 55% of the animal health market in this region, while companion animals make up for about 45%

SeQuent plans to turn this asset around and expects its margins to be at par with European operations over one to two years.

What is SeQuent's USP and Competitive positioning like ?

Vizag facility is the only unit which is USFDA compliant –

Sequent also enjoys the distinction of having India's first USFDA-approved animal health API facility at Vizag. This is a world-class, state-of-the-art manufacturing facility with a annual capacity of 1,000 MT and is fully compliant to latest environment, health and safety (EHS) regulations. Sequent recently entered the United States, the largest animal health market post recent approval from USFDA

Global facilities with product registrations –

Having aggressively invested over US\$ 55 million in the formulations segment for nine acquisitions and organic operation launches in four countries has transformed SeQuent in to a large quality player with formulations now comprising of 75% of consolidated revenues.

These acquisitions created a footprint for Alivira in the European Union market as well as the key markets of Mexico and Brazil. This strategy has helped us establish a strong formulations business with presence in key markets of Europe, Latin America, India, Turkey and parts of Africa and Southeast Asia with over 500 products focused towards production animals produced in GMP compliant facilities in Spain, Brazil, India and Turkey and R&D development in India, Turkey and Spain

Strong Brand relationships with global animal health players –

Sequent has significant presence in regulated markets with Europe accounting for over 50% share and a global marketing presence in 81 countries and direct operations in 11 nations while global top 25 markets account for 80%+ of consolidated sales

Around 50% of sales come from global Top 10 animal health companies in FY 2017-18 and SeQuent plans to raise it to 75% by 2020



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Strong R & D base –

SeQuent has four world-class R&D centres. Its global R&D programme is integrating global requirements, clinical knowledge and smart cost-effective developments. Further its R & D team has the skills to execute eco-toxicity, bio-equivalence and palatability studies. SeQuent also works with external contract research organisations (CROs) and experts to conduct specialised studies.

SeQuents API R&D centre at Vizag focusses primarily on developing new products, improving existing products, expanding product applications and continue to develop and enhance its product portfolio on the back of our technology and research development expertise.

SeQuent's formulations R&D centres based in Mumbai and Barcelona cater to EU, the US and other regulated markets, with satellite development centres located in Istanbul (Turkey) and Campinas (Brazil) support development of their respective local regions.

Going ahead SeQuent's R & D team efforts are developing complex formulations as it engages with partners with focus on improving the health and wellbeing of animals.

Healthy Pipeline of products in the FDF category and new APIs –

Sequent's R & D is working on a portfolio of over 35 products at this stage, which has been bolstered by its recent acquisition of Bremer, enabling it to execute a comprehensive injectable strategy. Having said this SeQuent has established strong R&D capabilities in India and Spain, aided by ancillary R&D centres in Turkey and Brazil. At present SeQuent has over 500+ Finished Dosage Formulations (FDFs) across 12 dosage forms

Going ahead it has around +35 products in the FDF pipeline and around 14+ in the API pipeline.

Having aggressively invested over US\$ 55 million in the formulations segment for nine acquisitions and organic operation launches in four countries has transformed SeQuent in to a large quality player with formulations now comprising of 75% of consolidated revenues

Going ahead SeQuent is now moving into the next phase of value creation, which will be driven by its expanding R&D pipeline in FDFs.

Investments made in last 4 years in overseas companies are likely to pay off handsomely going ahead –

Going ahead SeQuent is aggressively looking at capitalising its global presence in key markets like Europe, Turkey & MENA, India, Latin America, USA and Emerging Markets like Africa, Middle East, North America, South East Asia, CIS, Ukraine, Egypt, Tanzania, Saudi Arabia, Qatar and Thailand. Here the acquisitions made in last 4 years by SeQuent are expected to play a significant role as all of them have ready market access with product approvals and which are likely to see significant scale up in business opportunity in the next 2-3 years.

This is indicative of the fact that SeQuent expects to be amongst the Top 10 animal health players globally by FY22.



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SeQuent enjoys a strong balance sheet and both Topline and Bottomline growth is likely to remain strong going ahead –

SeQuent has maintained a strong balance sheet over the years with reasonable debt of around Rs 241 crs as on date (Dec 2018) on a consolidated basis on a consolidated networth of Rs 613 crs as on Dec 2018. The company has also enjoyed healthy operating cashflows. Operating cashflows between FY12-FY18 has grown at a CAGR of 12-14%, while a large part of the capex is complete which should enhance the free cash generation going ahead.

SeQuent has also reported average RoE of below 3% during the past 3 years, but looking at the improvement in both operating and net profitability over the 2-3 years is likely to cross 13% by FY21 with Roce expected at around 14% Hence going ahead we expect that SeQuent has the capability to sustain the robust financials performance given its strong business performance and significant cash generation expected ahead.

Further as capacity utilisation improves here we expect the consolidated RoCE in the next 2 years to average 14.30% with significant rise in cash flows expected ahead. This should also help the company to utilize the cash to fund further capex for new investments.

We expect that going ahead overall bottomline growth in the next 3 years starting FY19 onwards should increase at a CAGR of 25-30% and going ahead also we believe that net cash flows generated will remain healthy going ahead.



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Business Outlook & Stock Valuation –

On a rough cut basis, in FY19, Topline will see a steady rise wherein Topline is expected to touch Rs 1042 crs in FY19E.

On the bottomline level we expect the company to record a PAT of Rs 50 crs in FY19E. Thus on a conservative basis, SeQuent should record a EPS of Rs 2.04 for FY19E. For FY20E and FY21E our expectation is that earnings traction for SeQuent would continue to be strong wherein we expect a EPS of Rs 3 and Rs 4.18 respectively.

Sequent is a vertically integrated, global animal health company with seven manufacturing facilities in India, Spain, Germany, Brazil and Turkey.

In formulations, the company has a strong presence in Europe, Latin America, Turkey, India, Africa and Southeast Asia markets. Recently, it forayed into France and Ukraine. In API segment, top 10 global animal health companies account for 50% of the business

The company has 12 API filings in the US and 10 CEP filings in Europe. It has commercialised its first API in the US. The management has guided for 20% of growth in the API segment mainly due to commercialisation of APIs in the US and opportunities arising due to China supply concerns. The API business has reached breakeven in FY18.

As per the management, the API segment would be the biggest driver for both topline and bottomline growth for the next two to three years. On the formulations front, the company has guided for 12-13% growth on a constant currency basis. The company has a portfolio of 35+ products under development with an addressable market opportunity of over US\$500 million. The management plans to start filing from FY20 in the US and in EU from FY19

The management is aspiring to target Rs 2000-2500 crs of topline with 20% EBITDA margins over the next four to five years. It is looking at both organic and inorganic ways to achieve this topline growth. The management expects 150-200 bps annual expansion of EBITDA margins mainly due to better operational leverage.

In conclusion we believe that SeQuent is supported by a competent management team and promoters, wherein SeQuent enjoys a strong execution track record and its positioning in key markets which are all poised to grow fast which will significantly ramp up the company's operating profitability (Management has guided for a 20% topline growth in Q4FY19 with a 250 bp expansion in margins in Q4FY19) and hence we believe that SeQuent is well positioned for long term sustainable growth.

SeQuent trades at a attractive EV/EBIDTA of 11x on FY21E and hence we believe that the SeQuent stock should be purchased at the current price for a price target of around Rs 116 over the next 18 months.



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FINANCIALS

For the Year Ended March Rs Crs	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	683.57	864.39	1042.4	1271.72	1551.50
EBIDTA	37.51	82.96	135.51	170.41	211.01
EBIDTA %	5.49	9.60	13.00	13.40	13.60
Interest	28.34	33.06	31.00	30.00	28.00
Depreciation	40.07	41.34	42.00	43.00	45.00
Non Operational Other Income	11.07	16.58	8.00	8.00	8.00
Profit Before Tax	-14.39	23.64	70.51	105.41	146.01
Profit After Tax	-2.40	10.18	50.00	73.00	102.40
Diluted EPS (Rs) FV Rs 2		0.42	2.04	2.98	4.18
Equity Capital	49.00	49.00	49.00	49.00	49.00
Reserves	928.02	598.83	643.33	710.33	802.73
Borrowings	359.83	255.94	305.00	300.00	310.00
GrossBlock	478.91	287.52	317.52	347.52	382.52
Investments	427.00	238.73	170.00	170.00	170.00

Source Company our Estimates

KEY CONCERNS

The profitability of SeQuent is closely linked to the export markets as almost 90% of its production is exported. Any significant fall in overseas prices or demand impact here can negatively impact profitability

Any industry regulation in overseas markets for Animal Health care segment if negative can impact SeQuent badly as this could impact business in the near term.



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