

Sequent Scientific Ltd.

₹68

Better for you...!!!

Accumulate



Dec 21, 2018

Company Background

Sequent is India's first integrated, global animal health company. It offers API, branded generic formulations and analytical services. Sequent's manufacturing presence includes in 5 countries; India, Spain, Turkey, Brazil and Germany and marketing presence in over 100 nations and employ 1,000+ people. It currently operates from seven manufacturing facilities including four overseas facilities; Vizag-India, Tarapur-India, Ambernath-India, Barcelona-Spain, Polatli-Turkey, Campinas-Brazil and Warburg-Germany. Over the past four years, company has invested more than \$ 80 million in business, strengthening its R&D, manufacturing capabilities and building market presence through its differentiated portfolio. It operates in the domains of animal health, human health & analytical services. Over 90% of its revenues come from outside India. Its major R&D initiative is carried out in India and Spain. For FY18, it has 21 subsidiaries, out of which 7 Companies are wholly owned subsidiaries and no joint ventures/ associate companies. Company's first acquisition was in 2015, since then it made a series of well-strategized acquisitions, including the latest one in Germany (Bremer), which adds injectables to its portfolio.

Key Highlights

- ➔ Consolidated sales increased by 23.28% from ₹ 6,890.06 million in FY17 to ₹ 8,494.48 million in FY18. This increase is commensurate with further expansion in Animal Health operations.
- ➔ Business grew significantly in Europe growing by 30% and in Turkey by 42% as compared to the previous year. It also established Alivira presence in France, which is the largest EU market size of over \$ 1.5 billion.
- ➔ Around 50% of sales came from global top 10 animal health companies in FY18, company intend to raise it to 75% by 2020.
- ➔ During the year, it received an EIR for USFDA inspection at Vizag, the only USFDA-approved animal health API facility in India.
- ➔ It entered into a Business transfer agreement with Solara Active Pharma Sciences to acquire EU-GMP API facility at Mahad facility for consideration for ₹ 46.4 crores on an Enterprise Valuation basis.

Key Financials

Year Ended 31 st	Mar 16	Mar 17	Mar 18
Revenue (INR mn)	4,242.2	1,287.5	5,401.2
Rev. growth (%)	(8.85)	(69.65)	319.51
EBITDA (INR mn)	510.8	36.6	4,133.4
Net profit (INR mn)	103.9	(0.1)	4,064.1
Shares outstanding (mn)	238.3	243.8	243.8
EPS (INR)	0.4	0.0	16.4
EPS growth (%)	(96.75)	(100.00)	0.00
P/E (x)	332.73	0.00	4.71
RONW (%)	1.36	0.00	35.70
ROCE (%)	2.77	0.00	34.48

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Info Codes

Reuters	: SEQU.BO
Bloomberg	: SEQ.IN
NSE	: SEQUENT
BSE	: 512529

Market Data

52 Wk Range (₹)	: 42/105
Shares in Issue (mn)	: 243.8
Market. Cap (bn)	: 16.62
BSE 2 Wk Avg Vol	: 73,000

Share Holding Pattern (%)

Public & Others	: 13.63
Promoters	: 57.31
Corporate Holding	: 11.92
Foreign Institution	: 12.46
Institutions	: 04.68

Investment Theme

Sequent is now among India's largest animal healthcare companies, and it is only local entity to have USFDA-approved facility. Strong R&D pipeline with more than 35 products under development should maintain the growth momentum. Its one of the subsidiary Alivira Animal Health Ltd has acquired 100% stake in Cadila Healthcare's animal health business in Germany in a cash deal. The acquisition will give the firm a comprehensive manufacturing footprint in the European Union across injectables, orals, solids and powder range and front-end presence in six out of the top 10 EU markets. Alivira has received three product registrations in Ukraine. Ukraine is the largest egg and poultry market in Europe growing at over 8% year on year. Ukraine would make a significant contribution to Alivira's growth as another six products are under registration.

Caring for Life...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 16	Mar 17	% Chg	Mar 18	% Chg
Net Operating Income	3,945.9	907.1	(77.0)	1,060.1	16.9
Other Income	155.5	342.2	120.1	4,328.8	1,165.0
Change in Stocks	(117.2)	4.4	(103.8)	4.2	(4.5)
Fuel Charges	2,070.8	729.7	(64.8)	798.0	9.4
Employee Exp.	388.4	179.0	(53.9)	118.5	(33.8)
Indirect Taxes	140.8	38.2	(72.9)	12.3	(67.8)
Other Exp.	873.4	270.3	(69.1)	331.0	22.5
Operating Exp.	3,473.4	1,217.2	(65.0)	1,259.8	3.5
Operating Profit	510.8	36.5	(92.9)	4,133.3	11,224.1
Total Interest	164.4	4.1	(97.5)	3.8	(7.3)
Gross Profit	346.4	32.4	(90.6)	4,129.5	12,645.4
Net Dep.	241.8	32.5	(86.6)	36.7	12.9
Total Taxation	0.7	0.0	(100.0)	28.7	0.0
Net Profit/Loss	103.9	(0.1)	(100.1)	4,064.1	(40,64,200.0)

4 Years Balance Sheet

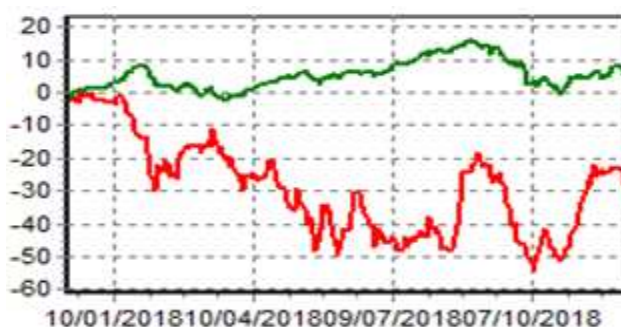
(₹ mn)

Balance Sheet as on 31 st	Mar 15	Mar 16	Mar 17	Mar 18
SOURCES OF FUNDS	7,233.2	13,333.1	14,829.1	11,024.1
Equity Share capital	304.9	476.5	487.5	487.5
Equity Share Warrants	288.0	130.5	0.0	0.0
Reserves & Surplus	319.8	8,850.0	9,280.4	5,988.3
Minority Interest	1,469.3	22.2	172.3	369.9
Secured Loans	3699.3	2742.8	3575.3	2418.8
Unsecured Loans	1,151.9	1,111.1	1,313.6	1,759.6
USES OF FUNDS	7,233.2	13,333.1	14,829.1	11,024.1
Gross Block	5,962.5	6,437.0	7,896.0	5,817.4
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	1,218.2	572.2	1,052.7	1,057.7
Net Block	4,744.3	5,864.8	6,843.3	4,759.7
Capital Work in Progress	390.6	235.2	325.5	180.5
Investments	586.2	4,275.6	4,280.9	2,390.8
Current Assets	3,091.2	4,235.6	6,636.2	5,206.7
Less : Current Liabilities	1,828.5	1,894.4	4,128.2	2,295.5
Total Net Current Assets	1,262.7	2,341.2	2,508.0	2,911.2
Misc. Expenses not writtenoff	249.4	616.3	871.4	781.9
NOTE				
Book Value of Unquoted Investments	(5.9)	(4,275.6)	(4,280.9)	(2,390.8)
Market Value of Quoted Investments	580.3	0.0	0.0	0.0
Contingent Liabilities	7,233.2	13,333.2	14,829.1	11,024.0
Dividend (%)	0.0	0.0	0.0	10.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 17	Mar 18	Jun 18	Sep 18
Net Sales	267.2	268.0	262.9	362.4
Cost Of Sales	321.2	323.7	271.4	362.5
Operating Profit	(54.0)	(55.7)	(8.5)	(0.1)
Other Income	44.9	4,002.6	43.6	45.7
Adjusted PBDIT	(9.1)	3,946.9	35.1	45.6
Financial Expenses	0.6	0.8	0.1	0.6
Depreciation	9.5	11.4	8.8	17.9
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(19.2)	3,934.7	26.2	27.1
Tax Charges	5.2	23.5	0.0	0.0
Reported Profit	(24.4)	3,911.2	26.2	27.1
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	(24.4)	3,911.2	26.2	27.1

52 Week Index Relative Percentage Appreciation

Sequent Scientific vs SENSEX
Risks Associated

- ➔ Company continued to face challenges in the Veterinary API business key markets due to geo-political reasons coupled with slow offtake from the existing customers.
- ➔ Sector continues to rely on imports of key starting materials, intermediates and API; with the share of dependence increasing over time. China alone accounts for more than 80% of India's API imports; driven by low costs, almost 50-60% lower than indigenous prices.

Scope of Growth

- ➔ Acquired Bremer Pharma, Germany in April 2018, will boost injectable pipeline in the EU. It is a niche animal health company in Germany with a focus on cattle and swine segments. Bremer has a portfolio of 400+ registrations across Europe, Far East, MENA, Russia and Africa.
- ➔ Bremer comes with an EUGMP-compliant injectable manufacturing facility with approval from German Competent Authority LANUV.
- ➔ Formulations business contributed around 75% of sales & API business contributed around 25% of sales in FY18. API R&D centre at Vizag focusses primarily on developing new products, improving existing products and expanding product applications. Formulations R&D center based in Mumbai and Barcelona cater to EU, US and other regulated markets, with satellite development centers located in Istanbul.
- ➔ FY18 is a significant year in the transformation of Sequent Scientific Ltd into India's largest Animal Health Company and the 1st Global Animal Health Company from India.
- ➔ Company began its first commercial supplies to the United States from its API facility at Vizag. It has completed 12 API filings in US during the year.

Sequent

In a Nutshell

Sequent is India's animal health company. It operates in the domains of animal health, human health and analytical services. It currently operates from seven manufacturing facilities in India and Global. Company's first acquisition was in 2015, since then it made nine well strategised acquisitions, including the latest one in Germany (Bremer), which adds injectables to its portfolio. Consolidated sales increased by 23.28% to ₹ 8,494.48 million in FY18. This increase is proportionate with further expansion in Animal Health operations. Around 50% of sales came from global top 10 animal health companies in FY18, company intend to raise it to 75% by 2020. Business grew significantly in Europe & Turkey with 30% and 42% respectively. The interest cost improved by 16.68% to ₹ 330.69 million for FY18 in line with business growth. Net profit also jumped to ₹ 4,308.3 million from loss of ₹ 163.9 million in FY17. After a 6 years gap, the Board has been declared a dividend of ₹ 0.2 per share. Alivira Animal Health Ltd is one of the subsidiaries, has acquired 100% stake in Cadila Healthcare's animal health business in Germany in a cash deal. The acquisition will give the firm a comprehensive manufacturing footprint in the European Union across injectables, orals, solids and powder range. Alivira has received three product registrations in Ukraine. Ukraine would make a significant contribution to Alivira's growth as another six products are under registration. Its next level of growth will be driven by the commercialization of its R&D products of both APIs & formulations and business growth of its recent acquisition.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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