

Muted demand coupled with operational challenges led to weak performance

Sequent Scientific (SSL) has posted revenue of INR 3,205mn with a 3.3% YoY increase, which was 13% below our estimate of INR 3,696mn. The revenue growth was mainly impacted by a 17.3% decline in API business due to supply chain rationalization by customers and a decline in sales of Albendazole (key product in API). The formulation business grew by 14.7% (YoY) led by strong performance in India (+171% YoY) and LATAM (+52.6% YoY). Europe sales muted (-1.5%), primarily due to lower sales in Spain. Turkey growth was subdued (-12.9% YoY) on account of operational challenges. India has emerged as an important market with more than doubled in the last year, supported by the Integration of Zoetis portfolio in SSL's product offering. Management expects a strong recovery in the API business during the second half of the year. EBITDA margin contracted by 1051bps to 6.3% level (lowest in last four years), which was 813bps lower than our estimate due to negative operating leverage in API business, higher employee cost (due to ESOP) and other expenses. SSL reported a PAT of INR 8,7mn compared to our estimate of INR 266mn (97% below our estimate) led by operationally weak performance. Management maintained revenue growth guidance of the mid-teen level. However, trimmed down margin growth guidance to 50bps (from earlier 100bps), YoY for the medium term due to remain competitive in the challenging pricing environment. We believe ESOP related costs continue to impact earnings to some extent. However, as it is a non-cash expense, cash flow growth would remain strong and unaffected.

Valuation and Outlook

We believe the company is on the verge of reaping the full potential of its past investments, led by its ongoing R&D investments in first to market animal health generics and the creation of a strong injectable pipeline. We expect formulation revenue to register CAGR of 17.5% over FY21-23e on the back of approval of new registrations across geographies. The larger growth pie in the formulations segment is to be driven by the commercialization of the injectable pipeline in the US and other regulated markets, which should begin FY23 onwards. We expect the API segment to have enough headroom left and can continue its mid-teen growth run rate over FY21-23, driven by an improved product/geography mix and supportive pricing dynamics. However, due to lower than expected growth in the API segment and higher than expected other expenses, we trim our earnings estimates for FY22/FY23 by 21%/13%, respectively. Therefore, we reduce our price target to INR 252 (earlier INR 264) by valuing the company at 33x of its FY23e earnings. We maintain our Hold rating.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Positive

Stock

CMP (INR)	266
Target Price (INR)	252
BSE code	512529
NSE Symbol	SEQUENT
Bloomberg	SEQ IN
Reuters	SEQU.BO

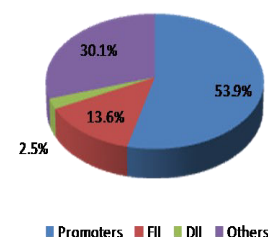
Key Data

Nifty	16,364
52WeekH/L(INR)	336/120
O/s Shares (Mn)	248
Market Cap (INR bn)	66
Face Value (INR)	2

Average volume

3 months	16,83,870
6 months	12,58,280
1 year	12,58,890

Share Holding Pattern (%)

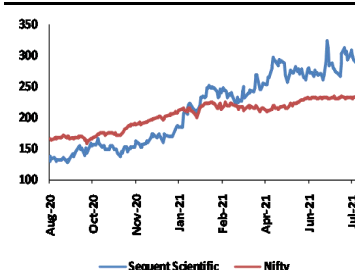


Key Financials					
YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	10,393	11,792	13,616	15,613	18,475
Growth %	23%	13%	15%	15%	18%
EBIDTA	1,249	1,703	2,121	2,419	3,081
Growth%	51%	36%	25%	14%	27%
Net Profit	487	699	954	1,342	1,894
Growth %	-88%	44%	37%	41%	41%
Diluted EPS	2.0	2.8	3.8	5.4	7.6
Growth %	-88%	44%	37%	41%	41%

Profitability & Valuation					
EBIDTA (%)	12.0%	14.4%	15.6%	15.5%	16.7%
NPM (%)	4.7%	5.9%	7.0%	8.6%	10.3%
RoE (%)	7.2%	9.6%	14.2%	16.9%	19.8%
RoCE (%)	7.2%	11.7%	15.1%	18.4%	21.5%
P/E (x)	135.8	94.5	69.2	49.2	34.9
EV/EBITDA (x)	54.8	40.3	32.0	27.6	21.3
P/BV (x)	9.3	8.9	9.1	7.7	6.3
Net Debt / EBITDA (x)	1.6	1.2	0.7	0.1	-0.3

Source: Company, BP Equities Research

Relative Price Chart



Research Analyst

Nikhil Shetty

nikhilshetty@bpwealth.com

Variance Analysis

YE March (INR. Mn)	Q1 FY22	Q4 FY21	Q-o-Q change %	Q1 FY21	Y-o-Y change %
Net Sales	3,205	3,618	(11.4%)	3,103	3.3%
Other Operating Income	0	0		0	
Total Revenue	3,205	3,618	(11.4%)	3,103	3.3%
Less:					
Raw Material Cost	1,663	1,857	(10.5%)	1,594	4.3%
Operating & Manufacturing Expenses	684	789	(13.3%)	557	22.9%
Employee Cost	656	539	21.8%	441	48.7%
Total Expenditure	3,004	3,185	(5.7%)	2,592	15.9%
EBIDTA	202	433	(53.4%)	510	(60.5%)
Less: Depreciation	126	127	(0.9%)	130	(3.5%)
EBIT	76	306	(75.2%)	380	(80.0%)
Less: Interest	30.2	31.8	(4.8%)	76.5	(60.5%)
Add: Other income	27	14	94.7%	15	72.6%
Exceptional Income / Expenses	0	0			
Profit before tax	72	288	(74.9%)	319	(77.3%)
Adjusted Profit before Tax	72	288	(74.9%)	319	(77.3%)
Less: Total Tax	46	55	(16.5%)	74	(38.3%)
Profit After Tax	26	233	(88.6%)	245	(89.2%)
Minority Interest	-18	-29		-36	
Adjusted Profit After Tax	9	204	(95.7%)	209	(95.8%)
Diluted EPS (Rs.)	0.04	0.8	(95.7%)	0.8	(95.8%)
Adjusted Diluted EPS	0.04	0.8	(95.7%)	0.8	(95.8%)
Diluted No of Share (mn)	248.4	248.4		248.4	
Margin Analysis %			Change in bps		Change in bps
Gross Margin %	48.1%	48.7%	-54	48.6%	-49
EBIDTA Margin %	6.3%	12.0%	-567	16.4%	-1,015
EBIT Margin %	2.4%	8.5%	-609	12.2%	-988
NPM %	0.8%	6.4%	-562	7.9%	-706
Effective Tax Rate %	63.4%	19.0%	4,432	23.3%	4,010

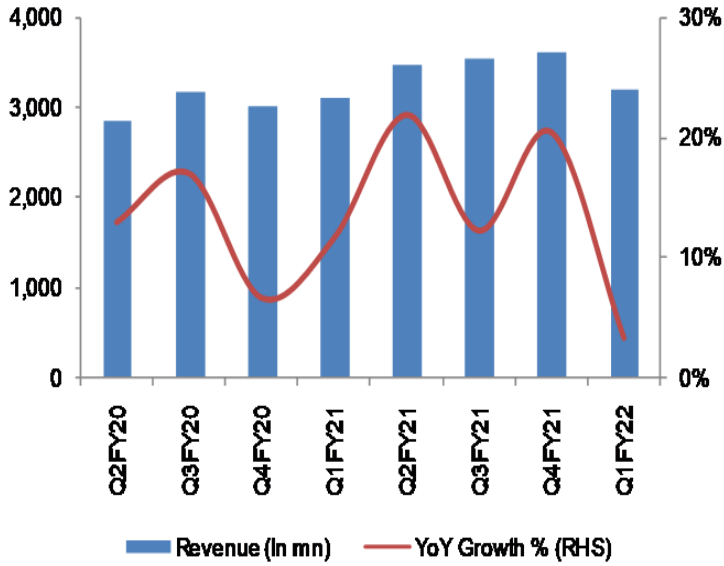
Source: Company, BP Equities Research

Revenue came below our estimates due to weak performance by API business (down 17.3% YoY)

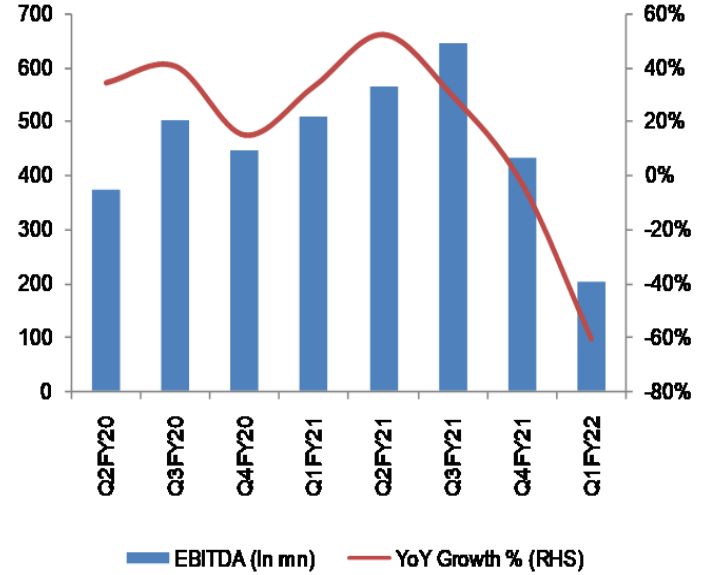
PAT came below our estimate of INR 266mn on account muted operational performance

EBIDTA margin contracted by 1051bps to 6.3% level (lowest in last four years), which was 813bps lower than our estimate due to negative operating leverage in API business, higher employee cost (due to ESOP) and other expenses.

Revenue grew by 3.3% YoY

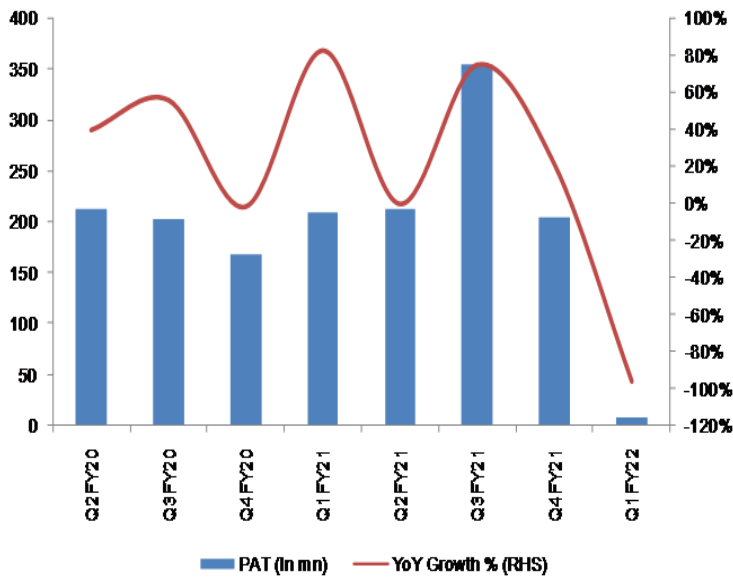


Higher Opex resulted in 60.5% decline in EBITDA

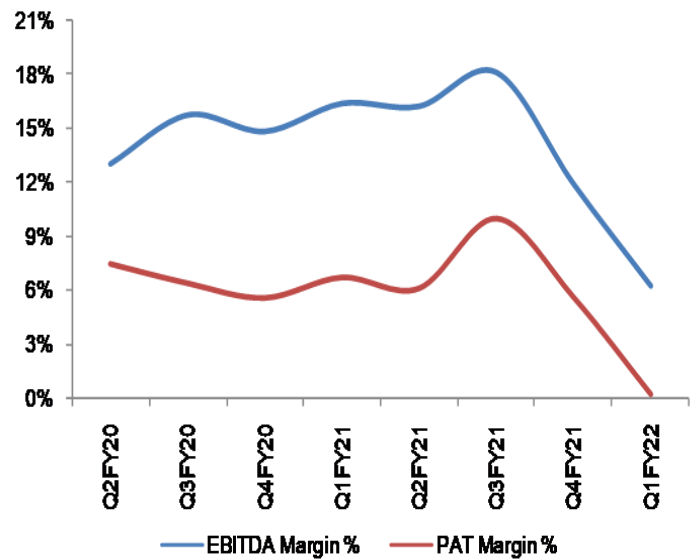


Source: Company, BP Equities Research

Weak operational performance translated into poor PAT growth



EBITDA and PAT margin trend



Source: Company, BP Equities Research



Segment/ Geography Wise Revenue Performance

Revenue Breakup	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Formulation	1,873	1,869	2,112	1,934	2,000	2,263	2,285	2,506	2,294
Growth QoQ %	4%	0%	13%	-8%	3%	13%	1%	10%	-8%
Growth YoY %	7%	5%	17%	7%	7%	21%	8.2%	30%	15%
Europe	882	844	974	945	1,072	952	1,025	1,113	1,053
Growth QoQ %	-1%	-4%	15%	-3%	13%	-11%	8%	9%	-5%
Growth YoY %	-5%	-6%	3%	6%	22%	13%	5%	18%	-2%
LATAM	241	271	287	302	334	353	424	450	510
Growth QoQ %	2%	12%	6%	5%	11%	6%	20%	6%	13%
Growth YoY %	17%	9%	17%	28%	39%	30%	48%	49%	53%
Emerging Markets	408	429	472	298	240	558	493	391	440
Growth QoQ %	17%	5%	10%	-37%	-19%	133%	-12%	-21%	13%
Growth YoY %	9%	7%	3%	-15%	-41%	30%	4%	31%	83%
Turkey	342	325	379	389	354	400	343	552	291
Growth QoQ %	3%	-5%	17%	3%	-9%	13%	-14%	61%	-47%
Growth YoY %	41%	45%	134%	17%	4%	23%	-9%	42%	-18%
API	907	973	1,052	1,072	1,102	1,200	1,297	1,113	911
Growth QoQ %	-10%	7%	8%	2%	3%	9%	8%	-14%	-18%
Growth YoY %	51%	31%	18%	6%	21%	23%	23.3%	3.8%	-17.3%

Revenue Mix (%)

Revenue Breakup	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Formulation	67%	66%	67%	64%	64%	65%	64%	69%	72%
Europe	47%	45%	46%	49%	54%	42%	45%	44%	46%
LATAM	13%	14%	14%	16%	17%	16%	19%	18%	22%
Emerging Markets	22%	23%	22%	15%	12%	25%	22%	16%	19%
Turkey	18%	17%	18%	20%	18%	18%	15%	22%	13%
API	33%	34%	33%	36%	36%	35%	36%	31%	28%

Source: Company, BP Equities Research



Profit & Loss A/c (Consolidated)						
YE March (INR in mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue	8,478	10,393	11,792	13,616	15,613	18,475
Growth %	24.0%	22.6%	13.5%	15.5%	14.7%	18.3%
Total Revenue	8,478	10,393	11,792	13,616	15,613	18,475
Less:						
Raw Material Consumed	4,625	5,430	6,051	6,947	7,726	8,960
Employee Cost	1,138	1,459	1,651	1,872	2,399	2,802
Other Expenses	1,885	2,254	2,388	2,677	3,069	3,632
Total Operating Expenditure	7,649	9,144	10,089	11,495	13,194	15,394
EBITDA	830	1,249	1,703	2,121	2,419	3,081
Growth %	104.7%	50.6%	36.3%	24.5%	14.1%	27.4%
Less: Depreciation	413	419	506	506	536	568
EBIT	416	830	1,197	1,615	1,883	2,513
Growth %	8892.9%	99.4%	44.2%	34.9%	16.6%	33.5%
Interest Paid	331	328	357	244	176	116
Non-operating Income	166	87	101	84	84	84
Extraordinary Income	-15	0	0	-88	0	0
Profit Before tax	236	589	941	1,366	1,791	2,481
Tax	135	20	120	322	358	496
Net Profit before Minority	102	569	820	1,045	1,433	1,985
Minority Interest	-93	-82	-121	-90	-90	-90
Other Consolidated Items	4,206	0	0	0	0	0
Net Profit	4,216	487	699	954	1,342	1,894
Adjusted Profit	24	487	699	1,043	1,342	1,894
Reported Diluted EPS Rs	17.0	2.0	2.8	3.8	5.4	7.6
Growth %	3149.5%	-88.5%	43.7%	36.5%	40.7%	41.1%
Adjusted Diluted EPS Rs	0.1	2.0	2.8	4.2	5.4	7.6
Growth %	117.6%	1904.1%	43.7%	49.2%	28.8%	41.1%

Source: Company, BP Equities Research

Cash Flows (Consolidated)						
YE March (INR. Mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
PAT	4,215.7	486.6	699.1	954.4	1,342.5	1,894.5
(Less)/Add: Extraordinary Income/Expense	15.0	0.0	0.0	88.2	0.0	0.0
Less: Non Operating Income	(165.8)	(86.7)	(100.9)	(83.6)	(83.6)	(83.6)
Add: Depreciation	413.4	419.2	506.2	506.0	535.7	568.2
Add: Interest Paid	330.7	328.0	357.1	243.8	175.9	115.9
Tax Adjustment	0.0	0.0	0.0	0.0	400.9	504.8
Operating Profit before Working Capital Changes	4,809.0	1,147.1	1,461.5	1,708.8	2,371.3	2,999.8
(Inc)/Dec in Current Assets	1,825.3	30.2	(848.9)	258.4	(925.2)	(879.9)
Inc/(Dec) in Current Liabilities	(1,903.3)	345.2	321.7	127.8	1,010.6	841.7
Changes in Inventory	22.3	(415.3)	(193.1)	(449.4)	(387.6)	(555.8)
Net Cash Generated From Operations	4,753.4	1,107.2	741.1	1,645.6	2,069.1	2,405.8
Cash Flow from Investing Activities						
(Inc)/Dec in Fixed Assets	2,078.5	(563.2)	(1,800.6)	439.6	(500.0)	(500.0)
(Inc)/Dec in Capital Work In Progress	(118.1)	(37.9)	61.4	(177.2)	0.0	0.0
(Inc)/Dec in Investment (Strategic)	63.0	(67.2)	780.0	25.0	6.3	(49.6)
(Inc)/Dec in Investment (Others)	1,422.4	420.8	483.6	543.5	0.0	0.0
Add: Non Operating Income	165.8	86.7	100.9	83.6	83.6	83.6
(Inc)/Dec in Intangible Assets	263.2	(7.8)	30.6	23.6	0.0	0.0
Net Cash Flow from/(used in) Investing Activities	3,874.9	(168.5)	(344.2)	938.2	(410.1)	(465.9)
Cash Flow from Financing Activities						
Inc/(Dec) in Total Loans	(613.6)	(374.3)	338.1	(1,381.8)	(500.0)	(500.0)
Inc/(Dec) in Reserves & Surplus	(7,280.7)	167.5	(248.6)	(925.3)	0.0	(0.0)
Inc/(Dec) in Equity	20.3	19.4	(45.0)	(140.9)	0.0	0.0
Dividend Paid	(49.7)	(49.7)	0.0	0.0	0.0	0.0
Less: Interest Paid	(330.7)	(328.0)	(357.1)	(243.8)	(175.9)	(115.9)
Adjustments	(408.4)	(77.7)	(46.4)	(0.0)	(400.9)	(504.8)
Exceptional Item	(15.0)	0.0	0.0	(88.2)	0.0	0.0
Net Cash Flow from Financing Activities	(8,677.9)	(642.8)	(359.0)	(2,780.1)	(1,076.8)	(1,120.7)
Net Inc/Dec in cash equivalents	(49.6)	295.9	37.9	(196.3)	582.2	819.1
Opening Balance	474.0	424.5	720.4	758.2	562.0	1,144.2
Closing Balance Cash and Cash Equivalents	424.5	720.4	758.2	562.0	1,144.2	1,963.3

Source: Company, BP Equities Research



Balance Sheet (Consolidated)

YE March(INR in mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Liabilities						
Equity Capital	487	494	497	497	497	497
Reserves & Surplus	5,813	6,384	6,790	6,780	8,122	10,017
Equity	6,476	7,067	7,428	7,277	8,619	10,513
Net Worth	6,846	7,469	7,875	7,763	9,106	11,000
Minority Interest						
Net Deferred tax liability/(Asset)	1,236	669	915	411	411	411
Total Loans	2,560	2,752	2,844	1,966	1,466	966
Capital Employed	10,641	10,891	11,634	10,141	10,983	12,377
Assets						
Gross Block	5,817	6,381	8,181	7,742	8,242	8,742
Less: Depreciation	1,058	1,399	1,859	2,365	2,901	3,469
Net Block	4,760	4,981	6,322	5,377	5,341	5,273
Capital WIP	134	172	111	288	288	288
Long Term Loans & Advances	310	323	144	151	144	194
Other Non Current Assets	579	633	32	0	0	0
Intangible assets under development	46	54	24	0	0	0
Non- Current Investments	2,217	1,797	1,313	769	769	769
Current Assets						
Inventories	1,586	2,001	2,194	2,644	3,031	3,587
Sundry Debtors	2,583	2,783	3,188	3,461	3,969	4,697
Cash and Bank Balance	424	720	758	562	1,144	1,963
Current Investments	173	5	402	57	57	57
Loans and Advances	561	467	444	305	702	831
Other Current Assets	52	85	155	107	128	151
Total Current Assets	5,380	6,061	7,141	7,136	9,031	11,286
Less:Current Liabilities & Provisions						
Sundry Creditors	1,605	2,094	2,204	2,296	3,118	3,690
Provisions	115	159	322	51	59	70
Other Current Liabilities	1,065	878	926	1,233	1,414	1,673
Total Current Liabilities & Provisions	2,785	3,130	3,452	3,580	4,591	5,432
Capital Applied	10,641	10,891	11,634	10,141	10,983	12,377

Source: Company, BP Equities Research

Key Ratios (Consolidated)

YE March (INR. mn)	FY18	FY19	FY20	FY21	FY22E	FY23E
Key Operating Ratios						
EBITDA Margin (%)	10%	12%	14%	16%	15%	17%
Tax / PBT (%)	57%	3%	13%	24%	20%	20%
Net Profit Margin (%)	50%	5%	6%	7%	9%	10%
RoE (%)	0%	7%	10%	14%	17%	20%
RoCE (%)	2%	7%	12%	15%	18%	22%
Current Ratio (x)	1.9x	1.9x	2.1x	2.0x	2.0x	2.1x
Dividend Payout (%)	1%	10%	0%	0%	0%	0%
Book Value Per Share (Rs.)	26	28	30	29	35	42

Financial Leverage Ratios

Debt/ Equity (x)	0.4x	0.4x	0.4x	0.3x	0.2x	0.1x
Interest Coverage (x)	2.5x	3.8x	4.8x	8.7x	13.7x	26.6x

Growth Indicators %

Growth in Net Block (%)	(30%)	5%	27%	(15%)	(1%)	(1%)
Sales Growth (%)	24%	23%	13%	15%	15%	18%
EBITDA Growth (%)	105%	51%	36%	25%	14%	27%
Net Profit Growth (%)	3150%	(88%)	44%	37%	41%	41%
Diluted EPS Growth (%)	3150%	(88%)	44%	37%	41%	41%

Turnover Ratios

Debtors Days	111	98	99	93	93	93
Creditors Days	77	84	80	73	73	73
Inventory Days	68	70	68	71	71	71

Source: Company, BP Equities Research

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001
BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591
BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392