

#### Weak operational performance

Sequent Scientific (SSL) has posted revenue of INR 3,506mn with a 1.2% YoY increase, which was 13% above our estimate of INR 3,102mn. The revenue beat was mainly driven by higher than expected growth in formulation business; However, API business de-grew by 10.4% (YoY) due to lower offtake of Albendazole (key product in API). The formulation business grew by 6.1% (YoY), led by strong performance in LATAM (+34.5% YoY) and Europe (+10.3%). India business growth moderated (+4.2%) due to the base effect of Zoetis commercialization in Q2FY21. Currency depreciation overshadows double-digit growth in Turkey business (de-grew by 6.6% YoY). Revenue from Emerging markets declined by 23.4%. Management expects a strong recovery in the API business during the second half of the year. EBITDA margin witnessed a sharp contraction of 1067bps to 5.6% level (lowest in last four years), which was 632bps lower than our estimate due to negative operating leverage in API business and higher employee cost (due to ESOP). Despite income tax credit (tax rate -250% vs 20.7% in Q2FY21), reported PAT came at INR 143mn (-52.8% YoY) compared to our expectation of INR.159mn due to operationally weak performance. Management maintained revenue growth guidance of the mid-teen level for the medium term. Moreover, management expects EBITDA margin recovery in coming quarters backed by strong growth in the API business and steady momentum in the formulation business. 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 healthy 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 robust injectable pipeline. We expect formulation revenue to register a CAGR of 13.9% over FY21-24e 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 continue its mid-teen growth run rate over FY21-24, driven by an improved product/geography mix and supportive pricing dynamics. However, recovery in the Albendazole sales is the key to our API segment growth estimates. Due to lower than expected growth in the API segment and higher than anticipated contraction in margins, we trim our earnings estimates for FY22/FY23 by 46%/37%, respectively. We roll forward our target price to FY24e EPS of INR 7.9 to arrive at a revised target price of INR 197 (earlier INR 252), valuing the stock at 25x P/E. We maintain our Hold rating.

#### Stock Rating

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

#### Sector Outlook

Positive

#### Stock

CMP (INR)	175
Target Price (INR)	197
BSE code	512529
NSE Symbol	SEQUENT
Bloomberg	SEQ IN
Reuters	SEQU.BO

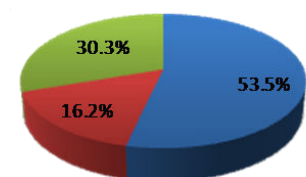
#### Key Data

Nifty	17,889
52WeekH/L(INR)	336/137
O/s Shares (Mn)	248
Market Cap (INR bn)	43.5
Face Value (INR)	2

#### Average volume

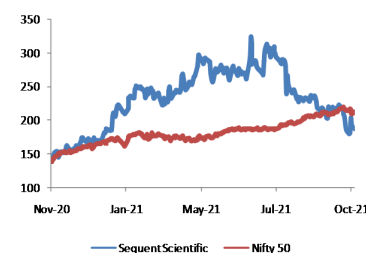
3 months	14,29,007
6 months	14,98,708
1 year	12,36,958

#### Share Holding Pattern (%)



■ Promoter ■ Institutions ■ Others

#### Relative Price Chart



#### Research Analyst

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Key Financials					
YE March (INR. Mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	11,792	13,616	14,522	16,857	19,801
Growth %	13%	15%	7%	16%	17%
EBIDTA	1,703	2,121	1,675	2,279	3,247
Growth%	36%	25%	-21%	36%	43%
Net Profit	699	954	718	1,194	1,962
Growth %	44%	37%	-25%	66%	64%
Diluted EPS	2.8	3.8	2.9	4.8	7.9
Growth %	44%	37%	-25%	66%	64%
Profitability & Valuation					
EBIDTA (%)	14.4%	15.6%	11.5%	13.5%	16.4%
NPM (%)	5.9%	7.0%	4.9%	7.1%	9.9%
RoE (%)	9.6%	14.2%	9.4%	13.9%	19.3%
RoCE (%)	11.7%	15.1%	14.7%	14.4%	19.9%
P/E (x)	62.2	45.5	60.5	36.4	22.2
EV/EBITDA (x)	27.0	21.4	26.7	19.4	13.2
P/BV (x)	5.9	6.0	5.4	4.7	3.9
Net Debt / EBITDA (x)	1.2	0.7	0.5	0.1	-0.4

Source: Company, BP Equities Research

## Variance Analysis

YE March (INR. Mn)	Q2 FY22	Q1 FY22	Q-o-Q change %	Q2 FY21	Y-o-Y change %
Net Sales	3,506	3,205	9.4%	3,463	1.2%
Other Operating Income	0	0		0	
<b>Total Revenue</b>	<b>3,506</b>	<b>3,205</b>	<b>9.4%</b>	<b>3,463</b>	<b>1.2%</b>
<b>Less:</b>					
Raw Material Cost	2,004	1,663	20.5%	1,807	10.9%
Operating & Manufacturing Expenses	682	684	(0.3%)	659	3.6%
Employee Cost	623	656	(5.1%)	433	43.7%
<b>Total Expenditure</b>	<b>3,309</b>	<b>3,004</b>	<b>10.2%</b>	<b>2,899</b>	<b>14.1%</b>
<b>EBITDA</b>	<b>197</b>	<b>202</b>	<b>(2.4%)</b>	<b>564</b>	<b>(65.1%)</b>
Less: Depreciation	132	126	5.0%	133	(0.7%)
<b>EBIT</b>	<b>65</b>	<b>76</b>	<b>(14.7%)</b>	<b>431</b>	<b>(85.0%)</b>
Less: Interest	32.6	30.2	7.9%	73.6	(55.7%)
Add: Other income	7	27	(72.4%)	26	(72.0%)
Exceptional Income / Expenses	0	0			
<b>Profit before tax</b>	<b>39</b>	<b>72</b>	<b>(45.5%)</b>	<b>384</b>	<b>(89.7%)</b>
<b>Adjusted Profit before Tax</b>	<b>39</b>	<b>72</b>	<b>(45.5%)</b>	<b>384</b>	<b>(89.7%)</b>
Less: Total Tax	-99	46	(315.6%)	80	(224.1%)
<b>Profit After Tax</b>	<b>138</b>	<b>26</b>	<b>421.8%</b>	<b>304</b>	<b>(54.6%)</b>
Minority Interest	5	-18		-1	
<b>Adjusted Profit After Tax</b>	<b>143.0</b>	<b>9</b>	<b>1537.7%</b>	<b>303</b>	<b>(52.8%)</b>
<b>Diluted EPS (Rs.)</b>	<b>0.58</b>	<b>0.0</b>	<b>1537.7%</b>	<b>1.2</b>	<b>(52.8%)</b>
<b>Adjusted Diluted EPS</b>	<b>0.58</b>	<b>0.0</b>	<b>1537.7%</b>	<b>1.2</b>	<b>(52.8%)</b>
Diluted No of Share (mn)	248.4	248.4		248.4	
<b>Margin Analysis %</b>			<b>Change in bps</b>		<b>Change in bps</b>
<b>Gross Margin %</b>	<b>42.8%</b>	<b>48.1%</b>	<b>-529</b>	<b>47.8%</b>	<b>-499</b>
<b>EBITDA Margin %</b>	<b>5.6%</b>	<b>6.3%</b>	<b>-68</b>	<b>16.3%</b>	<b>-1,067</b>
<b>EBIT Margin %</b>	<b>1.8%</b>	<b>2.4%</b>	<b>-52</b>	<b>12.4%</b>	<b>-1,060</b>
<b>NPM %</b>	<b>3.9%</b>	<b>0.8%</b>	<b>312</b>	<b>8.8%</b>	<b>-484</b>
Effective Tax Rate %	-250.5%	63.4%	-31,388	20.7%	-27,126

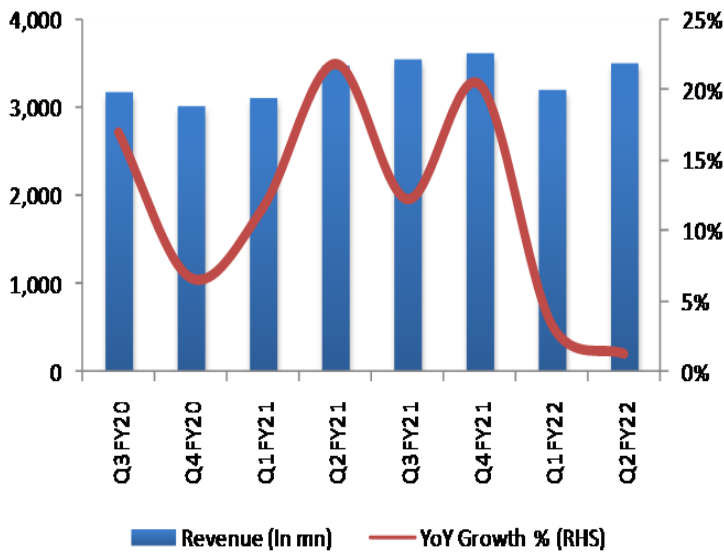
Source: Company, BP Equities Research

Revenue came above our estimates mainly driven by higher than expected growth in formulation business

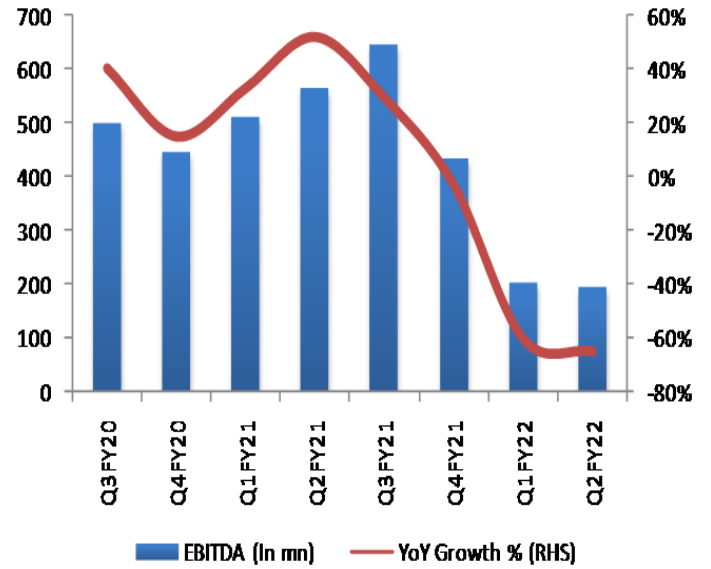
PAT came below our estimate of INR 159mn on account weak operational performance

EBITDA margin contracted by 1067bps to 5.6% level (lowest in last four years), which was 632bps lower than our estimate due to negative operating leverage in API business, and higher employee cost (due to ESOP).

Revenue grew by 1.2% YoY

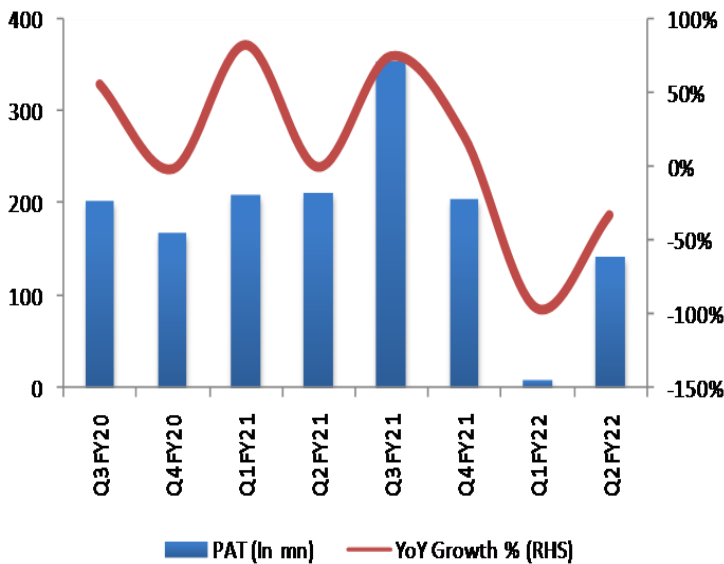


Higher Opex resulted in 65.1% decline in EBITDA

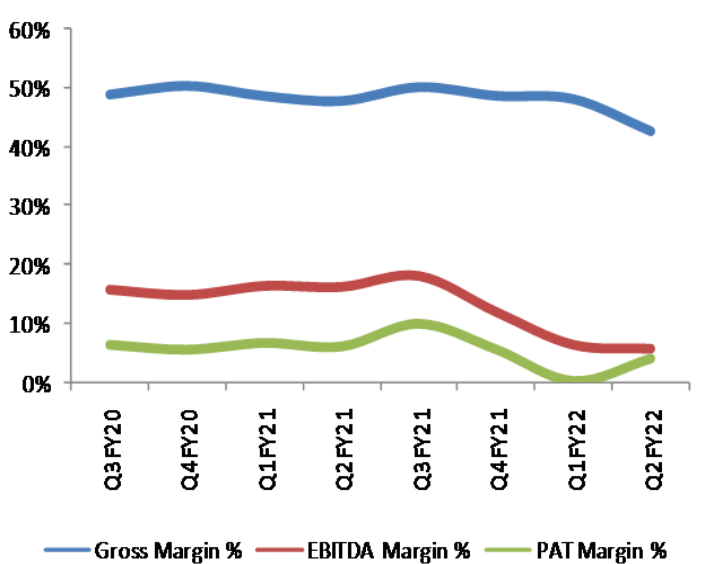


Source: Company, BP Equities Research

Weak operational performance translated into poor PAT growth



Gross/ EBITDA /PAT margin trend



Source: Company, BP Equities Research



**Segment/ Geography Wise Revenue Performance**

Revenue Breakup	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22
<b>Formulation</b>	1,869	2,112	1,934	2,000	2,263	2,285	2,506	2,294	2,401
Growth QoQ %	0%	13%	-8%	3%	13%	1%	10%	-8%	5%
Growth YoY %	5%	17%	7%	7%	21%	8%	30%	15%	6%
<b>Europe</b>	844	974	945	1,072	952	1,025	1,113	1,053	1,061
Growth QoQ %	-4%	15%	-3%	13%	-11%	8%	9%	-5%	1%
Growth YoY %	-6%	3%	6%	22%	13%	5%	18%	-2%	10%
<b>LATAM</b>	271	287	302	334	353	424	450	510	474
Growth QoQ %	12%	6%	5%	11%	6%	20%	6%	13%	-7%
Growth YoY %	9%	17%	28%	39%	30%	48%	49%	53%	34%
<b>Emerging Markets</b>	429	472	298	240	558	493	391	440	515
Growth QoQ %	5%	10%	-37%	-19%	133%	-12%	-21%	13%	17%
Growth YoY %	7%	3%	-15%	-41%	30%	4%	31%	83%	-10%
<b>Turkey</b>	325	379	389	354	400	343	552	291	351
Growth QoQ %	-5%	17%	3%	-9%	13%	-14%	61%	-47%	21%
Growth YoY %	45%	134%	17%	4%	23%	-9%	42%	-18%	-7%
<b>API</b>	973	1,052	1,072	1,102	1,200	1,297	1,113	911	1,104
Growth QoQ %	7%	8%	2%	3%	9%	8%	-14%	-18%	21%
Growth YoY %	31%	18%	6%	21%	23%	23%	4%	-17%	-10%

Revenue Mix (%)									
<b>Formulation</b>	66%	67%	64%	64%	65%	64%	69%	72%	69%
Europe	45%	46%	49%	54%	42%	45%	44%	46%	44%
LATAM	14%	14%	16%	17%	16%	19%	18%	22%	20%
Emerging Markets	23%	22%	15%	12%	25%	22%	16%	19%	21%
Turkey	17%	18%	20%	18%	18%	15%	22%	13%	15%
<b>API</b>	34%	33%	36%	36%	35%	36%	31%	28%	31%

Source: Company, BP Equities Research



Profit & Loss A/c (Consolidated)						
YE March (INR in mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenue</b>	<b>10,393</b>	<b>11,792</b>	<b>13,616</b>	<b>14,522</b>	<b>16,857</b>	<b>19,801</b>
Growth %	22.6%	13.5%	15.5%	6.6%	16.1%	17.5%
<b>Total Revenue</b>	<b>10,393</b>	<b>11,792</b>	<b>13,616</b>	<b>14,522</b>	<b>16,857</b>	<b>19,801</b>
<b>Less:</b>						
Raw Material Consumed	5,430	6,051	6,947	7,594	8,462	9,741
Employee Cost	1,459	1,651	1,872	2,399	2,802	2,920
Other Expenses	2,254	2,388	2,677	2,855	3,314	3,892
<b>Total Operating Expenditure</b>	<b>9,144</b>	<b>10,089</b>	<b>11,495</b>	<b>12,847</b>	<b>14,578</b>	<b>16,554</b>
<b>EBITDA</b>	<b>1,249</b>	<b>1,703</b>	<b>2,121</b>	<b>1,675</b>	<b>2,279</b>	<b>3,247</b>
Growth %	50.6%	36.3%	24.5%	-21.0%	36.1%	42.5%
Less: Depreciation	419	506	506	542	581	620
<b>EBIT</b>	<b>830</b>	<b>1,197</b>	<b>1,615</b>	<b>1,132</b>	<b>1,697</b>	<b>2,627</b>
Growth %	99.4%	44.2%	34.9%	-29.9%	49.9%	54.8%
Interest Paid	328	357	244	206	176	146
Non-operating Income	87	101	84	84	84	84
Extraordinary Income	0	0	-88	0	0	0
<b>Profit Before tax</b>	<b>589</b>	<b>941</b>	<b>1,366</b>	<b>1,010</b>	<b>1,605</b>	<b>2,565</b>
Tax	20	120	322	202	321	513
<b>Net Profit before Minority</b>	<b>569</b>	<b>820</b>	<b>1,045</b>	<b>808</b>	<b>1,284</b>	<b>2,052</b>
Minority Interest	-82	-121	-90	-90	-90	-90
Other Consolidated Items	0	0	0	0	0	0
<b>Net Profit</b>	<b>487</b>	<b>699</b>	<b>954</b>	<b>718</b>	<b>1,194</b>	<b>1,962</b>
<b>Adjusted Profit</b>	<b>487</b>	<b>699</b>	<b>1,043</b>	<b>718</b>	<b>1,194</b>	<b>1,962</b>
<b>Reported Diluted EPS Rs</b>	<b>2.0</b>	<b>2.8</b>	<b>3.8</b>	<b>2.9</b>	<b>4.8</b>	<b>7.9</b>
Growth %	-88.5%	43.7%	36.5%	-24.8%	66.3%	64.3%
<b>Adjusted Diluted EPS Rs</b>	<b>2.0</b>	<b>2.8</b>	<b>4.2</b>	<b>2.9</b>	<b>4.8</b>	<b>7.9</b>
Growth %	1904.1%	43.7%	49.2%	-31.1%	66.3%	64.3%

Source: Company, BP Equities Research

Cash Flows (Consolidated)						
YE March (INR. Mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>PAT</b>	<b>487</b>	<b>699</b>	<b>954</b>	<b>718</b>	<b>1,194</b>	<b>1,962</b>
(Less)/Add: Extraordinary Income/Expense	0	0	88	0	0	0
Less: Non Operating Income	(87)	(101)	(84)	(84)	(84)	(84)
Add: Depreciation	419	506	506	542	581	620
Add: Interest Paid	328	357	244	206	176	146
Tax Adjustment	0	0	0	401	505	617
<b>Operating Profit before Working Capital Changes</b>	<b>1,147</b>	<b>1,462</b>	<b>1,709</b>	<b>1,783</b>	<b>2,372</b>	<b>3,261</b>
(Inc)/Dec in Current Assets	30	(849)	258	(590)	(718)	(905)
Inc/(Dec) in Current Liabilities	345	322	128	690	687	866
Changes in Inventory	(415)	(193)	(449)	(176)	(453)	(572)
<b>Net Cash Generated From Operations</b>	<b>1,107</b>	<b>741</b>	<b>1,646</b>	<b>1,707</b>	<b>1,888</b>	<b>2,650</b>
<b>Cash Flow from Investing Activities</b>						
(Inc)/Dec in Fixed Assets	(563)	(1,801)	440	(600)	(600)	(600)
(Inc)/Dec in Capital Work In Progress	(38)	61	(177)	0	0	0
(Inc)/Dec in Investment (Strategic)	(67)	780	25	6	(50)	(18)
(Inc)/Dec in Investment (Others)	421	484	543	0	0	0
Add: Non Operating Income	87	101	84	84	84	84
(Inc)/Dec in Intangible Assets	(8)	31	24	0	0	0
<b>Net Cash Flow from/(used in) Investing Activities</b>	<b>(169)</b>	<b>(344)</b>	<b>938</b>	<b>(510)</b>	<b>(566)</b>	<b>(535)</b>
<b>Cash Flow from Financing Activities</b>						
Inc/(Dec) in Total Loans	(374)	338	(1,382)	(250)	(250)	(250)
Inc/(Dec) in Reserves & Surplus	168	(249)	(925)	0	0	0
Inc/(Dec) in Equity	19	(45)	(141)	0	0	0
Dividend Paid	(50)	0	0	0	0	0
Less: Interest Paid	(328)	(357)	(244)	(206)	(176)	(146)
Adjustments	(78)	(46)	(0)	(401)	(505)	(617)
Exceptional Item	0	0	(88)	0	0	0
<b>Net Cash Flow from Financing Activities</b>	<b>(643)</b>	<b>(359)</b>	<b>(2,780)</b>	<b>(857)</b>	<b>(931)</b>	<b>(1,013)</b>
<b>Net Inc/Dec in cash equivalents</b>	<b>296</b>	<b>38</b>	<b>(196)</b>	<b>341</b>	<b>391</b>	<b>1,103</b>
<b>Opening Balance</b>	<b>424</b>	<b>720</b>	<b>758</b>	<b>562</b>	<b>903</b>	<b>1,294</b>
<b>Closing Balance Cash and Cash Equivalents</b>	<b>720</b>	<b>758</b>	<b>562</b>	<b>903</b>	<b>1,294</b>	<b>2,396</b>

Source: Company, BP Equities Research



## Balance Sheet (Consolidated)

YE March( INR in mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Liabilities</b>						
Equity Capital	494	497	497	497	497	497
Reserves & Surplus	6,384	6,790	6,780	7,498	8,692	10,653
<b>Equity</b>	<b>7,067</b>	<b>7,428</b>	<b>7,277</b>	<b>7,994</b>	<b>9,188</b>	<b>11,150</b>
<b>Net Worth</b>	<b>7,469</b>	<b>7,875</b>	<b>7,763</b>	<b>8,481</b>	<b>9,675</b>	<b>11,637</b>
Minority Interest						
Net Deferred tax liability/(Asset)	669	915	411	411	411	411
<b>Total Loans</b>	<b>2,752</b>	<b>2,844</b>	<b>1,966</b>	<b>1,716</b>	<b>1,466</b>	<b>1,216</b>
<b>Capital Employed</b>	<b>10,891</b>	<b>11,634</b>	<b>10,141</b>	<b>10,608</b>	<b>11,552</b>	<b>13,264</b>
<b>Assets</b>						
Gross Block	6,381	8,181	7,742	8,342	8,942	9,542
Less: Depreciation	1,399	1,859	2,365	2,907	3,488	4,109
<b>Net Block</b>	<b>4,981</b>	<b>6,322</b>	<b>5,377</b>	<b>5,434</b>	<b>5,453</b>	<b>5,433</b>
Capital WIP	172	111	288	288	288	288
Long Term Loans & Advances	323	144	151	144	194	212
Other Non Current Assets	633	32	0	0	0	0
Intangible assets under development	54	24	0	0	0	0
Non- Current Investments	1,797	1,313	769	769	769	769
<b>Current Assets</b>						
Inventories	2,001	2,194	2,644	2,819	3,273	3,844
Sundry Debtors	2,783	3,188	3,461	3,692	4,285	5,034
Cash and Bank Balance	720	758	562	903	1,294	2,396
Current Investments	5	402	57	57	57	57
Loans and Advances	467	444	305	653	758	891
Other Current Assets	85	155	107	119	138	162
<b>Total Current Assets</b>	<b>6,061</b>	<b>7,141</b>	<b>7,136</b>	<b>8,242</b>	<b>9,804</b>	<b>12,384</b>
<b>Less:Current Liabilities &amp; Provisions</b>						
Sundry Creditors	2,094	2,204	2,296	2,900	3,366	3,954
Provisions	159	322	51	55	64	75
Other Current Liabilities	878	926	1,233	1,315	1,526	1,793
<b>Total Current Liabilities &amp; Provisions</b>	<b>3,130</b>	<b>3,452</b>	<b>3,580</b>	<b>4,270</b>	<b>4,956</b>	<b>5,822</b>
<b>Capital Applied</b>	<b>10,891</b>	<b>11,634</b>	<b>10,141</b>	<b>10,608</b>	<b>11,552</b>	<b>13,264</b>

Source: Company, BP Equities Research

## Key Ratios (Consolidated)

YE March (INR. mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Key Operating Ratios</b>						
EBITDA Margin (%)	12%	14%	16%	12%	14%	16%
Tax / PBT (%)	3%	13%	24%	20%	20%	20%
Net Profit Margin (%)	5%	6%	7%	5%	7%	10%
RoE (%)	7%	10%	14%	9%	14%	19%
RoCE (%)	7%	12%	15%	15%	14%	20%
Current Ratio (x)	1.9x	2.1x	2.0x	1.9x	2.0x	2.1x
Dividend Payout (%)	10%	0%	0%	0%	0%	0%
Book Value Per Share (Rs.)	28	30	29	32	37	45

## Financial Leverage Ratios

Debt/ Equity (x)	0.4x	0.4x	0.3x	0.2x	0.2x	0.1x
Interest Coverage (x)	3.8x	4.8x	8.7x	8.1x	13.0x	22.3x

## Growth Indicators %

Growth in Net Block (%)	5%	27%	(15%)	1%	0%	(0%)
Sales Growth (%)	23%	13%	15%	7%	16%	17%
EBITDA Growth (%)	51%	36%	25%	(21%)	36%	43%
Net Profit Growth (%)	(88%)	44%	37%	(25%)	66%	64%
Diluted EPS Growth (%)	(88%)	44%	37%	(25%)	66%	64%

## Turnover Ratios

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

Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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