Sequent
Proven Ability In Life Sciences

Annual Report 2021-22

ALIVIRA

CONSOLIDATE. ACCELERATE.

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Financial Performance

₹14,128 Mn
Revenue from operations
↑ 3.8%*

₹1,094 Mn
Operating EBITDA
7.7% Operating EBITDA margin

₹9,814 Mn
Revenue from Formulations
↑ 8.4%

₹4,314 Mn
Revenue from APIs
↓ 5.5%

₹413 Mn
Profit After Tax#

₹574 Mn
Cashflow from operations

↑ Y-o-Y growth over FY21
↓ Y-o-Y decline over FY21
*7.2% in constant currency
PAT after minority interest

FY22 highlights

Welcome to SeQuent

In a short period of time, SeQuent has evolved as the leading animal health company from India, carving out a niche for itself across the world with its unique business model. Sequent has grown from strength to strength, acquiring businesses in key global animal health markets, integrating the entities, scaling operations, and subsequently consolidating them successfully.

Under Sequent 2.0, the Company has put into motion several initiatives, with a strong emphasis on strategic investments to scale and build capabilities. We are exploring new markets, expanding our portfolio, for both Formulations and APIs, entering new segments, and collaborating closely with our valued customers.

Despite increasing uncertainties in the global markets, we are confident in our ability to accelerate competitive growth and achieve the bold ambitions set out in the Sequent 2.0 roadmap. Our diversified market reach, long standing partnerships, consistent focus on innovation, and our deep domain expertise in animal health will contribute immensely towards establishing Sequent as a global animal health major in the coming years.

Operational

API

- Contribution from regulated markets increased from ~ half to 2/3rd of overall API business in the year
- Submitted 1 new VMF filing – Total 24 USVMF filings and 11 CEP approvals with 30+ commercialised APIs offered to customers globally
- Mahad site successfully completed the certification audit from TÜV NORD CERT GmbH for ISO 14001 on Environment and ISO 45001 on Health & Safety
- Successfully completed multiple customer EHS audits and external safety audits through Licensed Auditors for our manufacturing sites in India
- Commissioned a pilot plant at Vizag to further augment capabilities
- Capacity ramped up at Indian manufacturing sites to keep pace with increasing demand
- Continue to engage with Top 10 animal health companies for sustainable long-term business

Formulations

- India formulation business crossed landmark of ₹1 Billion in revenues for the year
- Consolidated minority stake in Brazil, which is now fully owned, building on the strong track record of successfully Acquiring, Consolidating and Accelerating global businesses
- Acquired 100% stake in Nourrie Saúde e Nutrição Animal Ltda (Nourrie) in Brazil, marking entry into the companion animal market, and the 4th largest pet market globally
- Our Turkish facility received EU GMP approval for Tablets line, along with EU GMP renewal for other dosage forms for existing site, to leverage site as base for exports to Europe and other international markets
- Expanded Tulathromycin franchise – our first formulation from Indian R&D facility, with launches in multiple markets of Europe and submission of filings in key regulated markets and strategic emerging markets
- Accelerated investments to strengthen our capabilities in manufacturing and compliance, resumed upgrading sterile injectables facility at Bremer in Germany for US FDA readiness
- Onboarded sectoral experts to support new growth initiatives and strengthen partnerships with large animal health companies globally

Corporate identity

CONTINUING OUR LEGACY IN HEALTHCARE

SeQuent Scientific Limited is India's largest animal health company offering a comprehensive portfolio of Active Pharmaceutical Ingredients (API), finished drug formulations and analytical services, addressing the needs of the animal health sector worldwide. We are also amongst the 'Top 20' in our sector globally, with nine manufacturing facilities across Europe, Turkey, Brazil and India. With The Carlyle Group as our Promoter, we are well supported to explore and pursue new avenues of growth, and the team's efforts are further guided by the valuable experience of our well diversified Board. Sequent offers APIs and finished drug formulations under the brand name Alivira across all global markets while Sequent Research is a contract research organisation with expertise in analytical and bioanalytical services for pharmaceutical, personal care, nutraceutical, and API firms.

Vision

To be a leading integrated animal health company committed to quality veterinary solutions globally

Mission

To deliver quality products competitively while adhering to high standard of quality, governance & compliance

Largest
Animal health company from India

~2/3rd
Revenue from regulated markets

30+
Commercial APIs

80+
Countries

9
Manufacturing facilities*

₹2.73 Mn
CSR spend

5
R&D centres

1,900+
Employees

1,000+
Finished dosage formulations across 12 dosage forms

*3 in API (Vizag, Mahad, Tarapur), 6 in Formulations [(Ambernath, India), Spain, Germany, Turkey, Brazil (2 facilities - Campinas and Minas Gerais)]

Values

Adaptability
- Any situation, anytime.
- We adjust to new tasks and always appear flexible.

Accountability
- Speak up. Step up.
- We acknowledge and take responsibility for our actions and decisions.

Integrity
- Do the right thing. Always.
- We respect one another and act honestly at all times.

Collaboration
- We is stronger than me.
- We encourage everyone to work together believing that the whole is greater than the sum of parts.

Continuous Improvement
- Better each day.
- We improve systems and procedures for better quality and cost efficiency.

Our presence

ACHIEVING OPTIMAL SCALE

We have a diversified global presence with manufacturing capabilities across multiple regions including Europe, India, emerging markets such as Latin America, Turkey, and other emerging markets. With 3 API facilities in India, 6 formulation manufacturing facilities and 5 R&D centres globally, we continue to expand and invest in building capabilities in R&D and manufacturing.

Warburg, Germany

Capabilities: Beta-lactam and hormones

Dosage: Injectable solutions/ suspensions, powders, Oral solutions/suspensions and premixes

Approvals: EUGMP

Ankara, Turkey

Capabilities: Beta-lactam, Non Beta-lactam, hormones

Dosage: Sterile suspension & injectable, dry powder, aerosols, intramammary, pour-on, spot-on, oral solutions/suspensions

Approvals: EUGMP, Turkish GMP

Barcelona, Spain

Capabilities: Dedicated beta-lactam powder block & nutritional

Dosage: Oral solutions/ suspensions, powders and premixes

Approvals: EUGMP

Mumbai, India

Capabilities: Sterile granules

Dosage: Oral solutions/ suspensions, powders, and premixes

Approvals: cGMP, India, Uganda, Ethiopia, Kenya

Campinas, Brazil

Dosage: Powders and premixes

Approvals: MAPA

Minas Gerais, Brazil

Dosage: Premixes, tablets, pastes, suspensions and solutions

Approvals: MAPA

Tarapur

Capabilities: API intermediates facility with reactor capacity of 64 kL with two clean rooms

Approvals: cGMP

Mahad

Capabilities: API facility with reactor capacity of 80 kL with two clean rooms

Approvals: EUGMP, COFEPRIS Mexico

Vizag

Capabilities: API facility with reactor capacity of 270 kL with seven clean rooms

Approvals: USFDA, EUGMP, WHO – Geneva

Key

API · Formulations · R&D Centres

Key performance indicators

DRIVING EFFICIENCIES FORWARD

Traversing through the many challenges of FY22, we have grown stronger, and are making good headway with our strategic goals. We are confident about the underlying strength of our organisation to continue delivering exceptional outcomes.

Revenue by business segment

- 31%-API
- 69%-Formulations

Revenue by Markets (Formulations)

- 43%-Europe
- 23%-LATAM
- 14%-Turkey
- 10%-Emerging markets
- 10%-India

Revenue by markets (APIs)

- 65%-Regulated
- 35%-Less Regulated

Revenue from operations (in ₹ Mn)

FY22	14,128
FY21	13,616
FY20	11,792
FY19	10,393
FY18	8,484

Y-o-Y growth: 4%

EBITDA (in ₹ Mn)

FY22	1,094
FY21	2,163
FY20	1,758
FY19	1,327
FY18	871

EBITDA margin (in %)

FY22	7.70
FY21	15.90
FY20	14.90
FY19	12.80
FY18	10.30

Profit after tax* (in ₹ Mn)

FY22	413
FY21	954
FY20	699
FY19	487
FY18	9^

Cashflow from operations (in ₹ Mn)

FY22	574
FY21	1,585
FY20	1,272
FY19	1,154
FY18	541

Gross bock + CWIP (in ₹ Mn)

FY22	6,426
FY21	6,098
FY20	5,936
FY19	5,528
FY18	3,976

* PAT after minority interest
^ Post demerger of human business

Return on capital employed (%)

FY22	9.80
FY21	20.20
FY20	15.60
FY19	11.70
FY18	7.80

Net debt to equity

FY22	0.37
FY21	0.22
FY20	0.33
FY19	0.36
FY18	0.38

Net debt to EBITDA

FY22	2.32
FY21	0.75
FY20	1.30
FY19	1.90
FY18	2.80

Chairman's message

BANKING ON OUR CAPABILITIES

It gives me immense pleasure to connect with you all again.

While the world started recovering from the pandemic, and economic activity revived in many sectors, new geo-political events threatened to interrupt the return to normalcy. The disruption in supply chains, volatility in prices of input materials and increasing costs of utilities have presented new challenges to all businesses. As your company operates in multiple geographies across the world, we too were not insulated from the impact of the pandemic and these recent developments.

I am proud of the entire SeQuent team for their unstinting efforts, which have helped us to navigate these challenges, as we continue with our endeavour to build a global animal health major from India. The last two years have taught us to be resilient, find innovative solutions, and reinvent ourselves to emerge stronger. The efforts are already evident through the new milestones achieved in all our business.

We are excited by the opportunities that lie ahead of us. The global animal health market was valued at ~US$ 53 Billion in 2021 and is expected to witness a CAGR of 5% - 7% during this decade. Your company has built a strong foothold and consolidated its position in many key animal healthcare markets, including India, which will provide the springboard needed to accelerate our growth agenda.

Your company with its global presence has already established itself as a manufacturer of high quality Active Pharmaceutical Ingredients (API) and Formulations, serving customers in the United States, Europe, India, Latin America, and other emerging markets. We are building a strong operational infrastructure with 5 R&D centres, 9 manufacturing facilities across the world, and marketing presence in nearly 80 countries.

Coming to sustainability, we believe that what is good for the society, is good for our business. We are committed to leveraging new technology platforms and using novel approaches, resulting in minimal utilisation of energy resources and better waste management.

During the year our employees were provided free of cost vaccination against Covid-19, as we continued to put the highest priority on the safety and well-being of our employees. I would like to express my gratitude to our people and their families for stretching beyond the normal call of duty and ensuring that we have uninterrupted supply of products for our customers.

Our ambitious plans have been laid out under the Sequent 2.0 strategy. We have now consolidated our operations substantially and put in place the building blocks needed to accelerate our growth. We are also prepared to face any volatility and have developed agile mechanisms to seize new opportunities for growth and contain costs, while working within the broader framework of our strategy.

We are delighted to welcome Rajaram Narayanan as Managing Director and CEO of the Company. He joins us with a strong track record and experience of leading and transforming businesses in complex and competitive industries. The Board looks forward to partnering with him in the company's next phase of successful growth.

I would like to take this opportunity to thank my fellow Board Members and all the other stakeholders for their valuable guidance, trust, and support towards our vision of creating a global animal healthcare leader out of India.

Warm regards,

Dr. Kamal K Sharma
Chairman

Managing Director's message

DRIVING GROWTH THROUGH COALESCENCE

I am happy to write to you for the first time as the Managing Director of your Company. Sequent is a unique company, which has systematically built a strong presence across the world in a relatively short period of time.

I am proud to inform you that even in the face of adversity and a year full of challenges, your company continued to achieve new milestones in line with its strategy.

We are the largest animal health company from India and are currently amongst the Top 20 animal health companies in the world. Our Sequent 2.0 strategy guides our ambition to take big and bold steps to climb up the pecking order and establish ourselves firmly within the upper tier of the industry.

I am proud to inform you that even in the face of adversity and a year full of challenges, your company continued to achieve new milestones in line with its strategy.

We now have a presence across 80 countries. Our recent focus has been to consolidate our businesses across the world. We have made strategic acquisitions over the last few years across regulated markets, which are at the forefront of the animal healthcare industry. The formulations business, which is a major driver of your company's growth, registered two-thirds of its revenues from regulated markets. Our regional presence and world class manufacturing capabilities have helped us to exploit the opportunities available in these markets.

Brazil is the 4th largest animal health market in the world. Since its acquisition in 2016, Alivira Brazil has emerged to be amongst the Top 10 animal health players in Brazil, having grown significantly at a CAGR of 57% over the last 5 years. We have taken a step further this year and acquired 100% stake in Nourrie, which came with a portfolio of 23 commercialised products, and a near-term pipeline of 17 products for pet and swine categories. With the consolidation of Alivira's business in Brazil, we now have full ownership in most of our subsidiaries. This will enable us to leverage the unique capabilities in our markets, create synergies and accelerate growth.

Our formulations business grew at a CAGR of 11% over the last 4 years, clocking a revenue of ₹9.8 Billion in this financial year. The formulations business in India crossed the landmark of ₹1 Billion in annual revenues. Post the relaxation of pandemic related restrictions, we have also resumed the upgradation of our formulations facility in Germany, to serve the markets in Europe and USA.

Your company also has the distinction of being the only one in India to have established a USFDA approved greenfield dedicated veterinary API facility. We successfully completed several customer audits at this facility. The manufacturing facility at Mahad also successfully completed the audit certification from TÜV NORD CERT GmbH for ISO 14001 on Environment and ISO 45001 on Health & Safety. The API business achieved revenues of ₹1.4 Billion in Q4 FY22, achieving the highest ever quarterly performance, and closed the year with ₹4.3 Billion in total revenues for FY22. Your company also successfully commercialised 1 new API and submitted a new US VMF filing, taking the total of commercialised APIs up to 31.

In aggregate, we reported a revenue of ₹14.1 Billion, which saw a 3.8% growth (7.2% in constant currency terms). Macroeconomic factors and currency volatility, especially in Turkey, had a bearing on our financials. The Turkish Lira moved from 8.33 to a US$ in March 2021 to 14.65 to a US$ in March 2022. This unfavourable currency depreciation caused a reduction in net worth by about ₹797 Million. However, we have a leading position in the Turkish market, which is gaining strength on the back of our local manufacturing capabilities and strong branded generics business.

Our concerted efforts towards building strong partnerships, and continued investments in building capabilities in R&D and manufacturing, will provide a strong pipeline of products.

I thank our Board for their valuable guidance and all our stakeholders for supporting us in our journey. I am truly proud of the work that has been put in over the past few years, to bring the company to an enviable position. It is an honour to lead the team at Sequent through this exciting next phase of growth towards building a significant and large global animal health company from India.

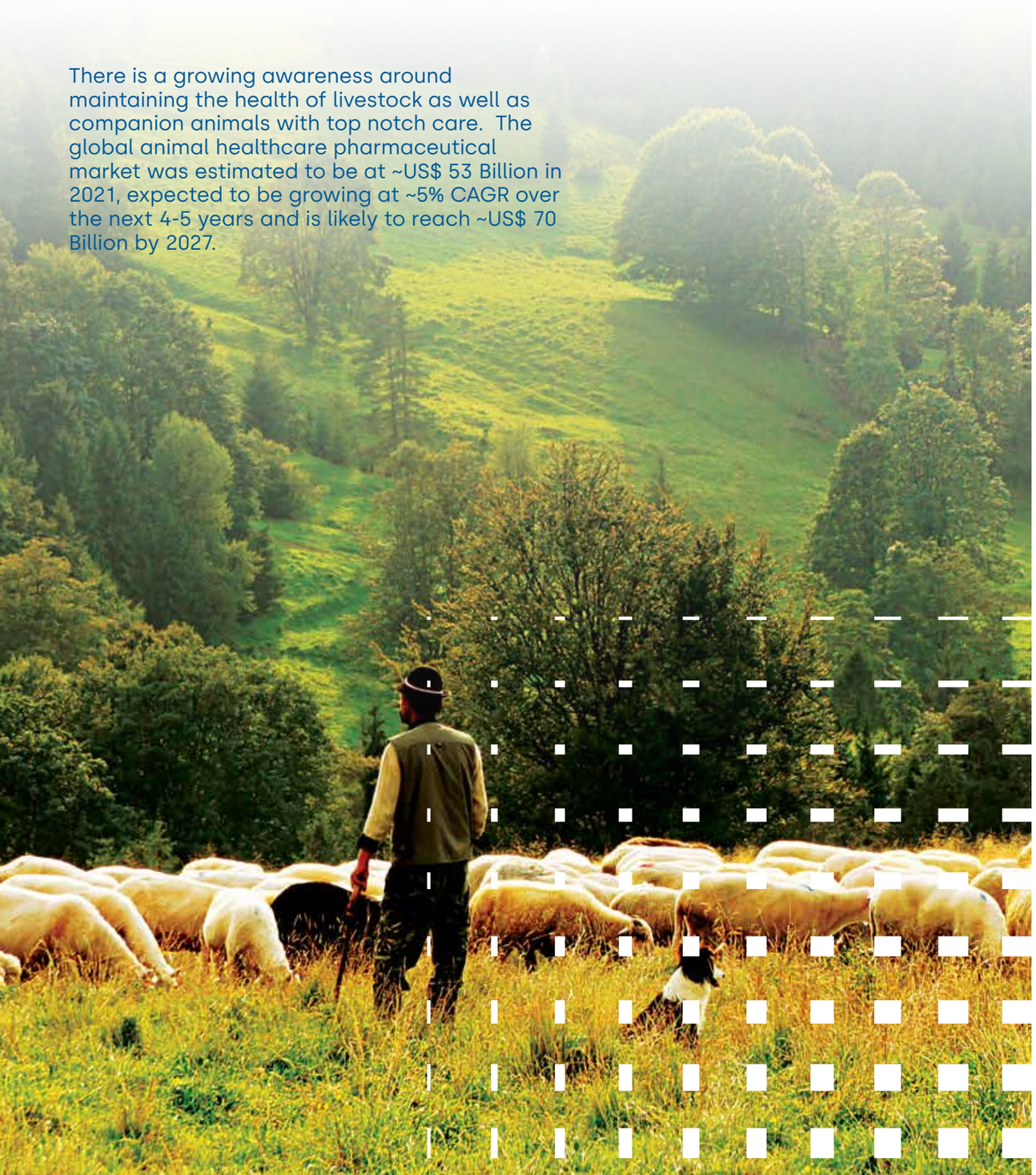
Warm regards,

Rajaram Narayanan
Managing Director

Operating environment

TRENDS SHAPING OUR STRATEGY

There is a growing awareness around maintaining the health of livestock as well as companion animals with top notch care. The global animal healthcare pharmaceutical market was estimated to be at ~US$ 53 Billion in 2021, expected to be growing at ~5% CAGR over the next 4-5 years and is likely to reach ~US$ 70 Billion by 2027.



Pet animals

Demand for pet ownership is increasing in recent times considering the evolving social fabric, greater nuclearisation of families and the desire for companionship with pets post the lockdown era. Pets are recognised as not just companions but play an important role in improving people's mental health and wellbeing. The perspective has changed from pet ownership to responsible pet parenthood. This rise in companion animal ownership has given an impetus to the demand for pet healthcare, as pet parents and caregivers value them just like their family members. The global pet pharmaceuticals sector is expected to drive growth for the overall animal healthcare sector in the near future.

Prevalence of xoonotic diseases

The wellbeing of human beings and the environment at large is intrinsically connected with the health of animals, be it livestock or pets. There is an increasing threat of viruses and bacteria passing from infected animals and crossing the species barrier to affect human beings, leading to pandemic situations. This increased incidence of zoonotic diseases is a key contributing factor in the growing demand for animal health products and services. Increased adoption of healthcare products to prevent diseases, focus on general well-being and meeting nutritional requirements of the animals, in addition to treating them for any illnesses, is further driving growth in the sector.

Market size estimation 2021 (US$ Billion)

15.5	14.5	5.5	1.1	1	15.3
North America	Europe	LATAM	India	Turkey	Emerging markets

Source: Research Reports, Internal Estimates

https://www.globenewswire.com/news-release/2022/04/13/2422121/0/en/Animal-Healthcare-Market-Size-to-Hit-US-76-82-Billion-by-2030.html

https://www.marketdataforecast.com/market-reports/la-veterinary-healthcare-market

https://www.marketdataforecast.com/market-reports/eu-veterinary-healthcare-market

Formulations

GROWTH ACCELERATOR

Our formulations business continues to grow, contributing to 69% of total revenues globally. LATAM and India markets delivered market beating growths. Our industry insights allow us to create a tailored portfolio of potent and diversified products that cater to the needs of animal species we serve. Our product range includes nutrition, pain management, anthelmintics, antibiotics, and gut health management products, to name a few.

Consolidation

Minority stake in Brazil business making Brazil entity fully owned by Sequent

Acceleration

100% stake in Nourrie Saúde e Nutrição Animal Ltda ('Nourrie') in Brazil

Key highlights

Tulathromycin launch

In FY21, we launched Tulathromycin, our first in-house developed injectable in Europe. FY22 was the first full year of commercialisation, and we are delighted to share that the product performed above our expectations.

Acquisitions

In February 2022 we acquired 100% stake in Nourrie Saúde e Nutrição Animal Ltda ('Nourrie') in Brazil, marking Alivira's entry into the fast-growing pet segment in Brazil, the 4th largest companion animal market in the world.

Growth drivers

Strategic investments

We have initiated work on the capability and capacity expansion of our injectable facility in Bremer, Germany, for USFDA Approval and US commercialisation, which has been delayed due to COVID-19 related travel restrictions in Europe, delaying the facility upgradation work.

Strengthening presence and expanding portfolio

The conclusion of Nourrie's acquisition marks an important milestone in the SeQuent 2.0 strategy of establishing our presence in Brazil's pet market, the fastest growing segment. Brazil is the 4th largest pet market in the world, with an estimated market size of R$ 1.8 Billion, growing annually at ~16%. The addition of Nourrie has nearly doubled the product portfolio available to Alivira for commercialisation in Brazil, with additions in both the nutraceutical and therapeutic product categories. Nourrie also brings a strong pipeline of 20 products under development, 12 of which are planned for launch in the next fiscal. Brazil has emerged as our third largest market, next only to Spain and Turkey.

1,000+
Formulations

80+
Countries

~2/3rd
Sales to regulated markets

25+
Products under development

6
Manufacturing facilities

4
R&D centres

API

A STRONG PILLAR POWERING OUR CAPABILITIES

Global animal health companies rely and trust us for our ability to deliver quality APIs. Our API facilities have a strong track record of regulatory compliance, ensuring high quality standards and service commitments that help our customers to sustain their market share.

Key highlights

Particulars	FY22 Updates/ Developments	Total Products
Commercialised	1	31
US VMF Filing	1	24
EU CEP Approvals	-	11

Growth drivers

Improved operational efficiency

With rising input material costs, a systematic cost reduction programme has been rolled out for our top products to enhance our cost competitiveness in price sensitive emerging markets. We achieved significant cost reductions for one of our top molecules, and also simplified our supply chain significantly. This cost reduction programme will continue in the next year, with enhanced focus, higher resource allocation and augmented infrastructure.

Strengthening partnerships with the large global Animal Health companies

We are now seen as a strategic supplier by Top Animal Health players, having developed commercial relationships with most of them. We also established an advisory committee, with the aim of garnering higher wallet share.

Portfolio diversification

We have been successful in broad-basing our portfolio, leading to the diversification of our revenue base across different products.

Capacity expansion

We commissioned the 7th clean room in Vizag, enhancing our capacity by ~20%.

CDMO business

We expect to drive benefits from the agreements signed with 2 Top-10 animal health companies, some of which will commence in the later part of FY23. We continue to strategically engage with top animal health companies as part of our long-term strategy.

24
US VMF filings

11
CEP approvals

~3/4th
Sales to regulated markets

8+
Products pipeline

3
Manufacturing locations

1
R&D centre