

## Sequent Scientific Limited

March 16, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	49.25	27.42	[ICRA]BBB+ reaffirmed; 'rating watch with developing implications' removed and Stable outlook assigned
Long-term, Fund-based Limits	86.50	71.00	[ICRA]BBB+ reaffirmed; 'rating watch with developing implications' removed and Stable outlook assigned
Short-term, Non-fund Based Limits	40.00	69.00	[ICRA]A2+ reaffirmed; 'rating watch with developing implications' removed
Long-term – Interchangeable	0.00	(25.00)	[ICRA]BBB+ reaffirmed; 'rating watch with developing implications' removed and Stable outlook assigned
Short-term – Interchangeable	0.00	(50.00)	[ICRA]A2+ reaffirmed; 'rating watch with developing implications' removed
<b>Total</b>	<b>175.75</b>	<b>167.42</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) assigned to the Rs. 27.42 crore<sup>1</sup> (reduced from Rs. 49.25 crore) term loans and the Rs. 71.00 crore (reduced from Rs. 86.50 crore) fund-based limits of Sequent Scientific Limited (SSL or the company)<sup>2</sup>. ICRA also reaffirmed the short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) assigned to the Rs. 69.00 crore (increased from Rs. 40.00 crore) non-fund based facilities of the company. ICRA also reaffirmed the rating of [ICRA]BBB+ for the long-term interchangeable limits of Rs. 25.00 crore and [ICRA]A2+ for the short-term interchangeable limits of Rs.50.00 crore. The ratings have been removed from 'watch with developing implications'. The outlook on the long-term rating is Stable. The utilisation should not exceed the total limits of Rs. 167.42 crore.

### Rationale

For arriving at the ratings, ICRA has taken a consolidated view of SSL along with its wholly-owned subsidiary - Alivira Animal Health Limited (AAHL) given the strong operational, financial and management linkage between the entities.

The ratings reaffirmation and removal of the rating watch take into account the healthy revenue growth and improvement in profitability of SSL's (consolidated) continuing business i.e. animal active pharmaceutical ingredients (APIs) and formulations business, in FY2017 and 9M FY2018 following the integration of the operations of various entities acquired over the past two years under AAHL. The demerger of the human API segment is in the final stage of completion and will be in effect from October 01, 2017. While the demerger of the human API business has impacted the top line for SSL standalone, revenue growth in the animal API and formulations segments has supported top line growth for SSL consolidated in 9M FY2018. The divestment has helped sharpen SSL's focus on the relatively high margin animal health business under AAHL. SSL (consolidated) reported an operating income of Rs. 745.9 crore in 9M FY2018 compared to Rs. 729.2 crore in 9M FY2017, despite the demerger of the human API segment with effect from October 1, 2017. The consolidated debt is also expected to reduce by ~Rs. 85 crore, attributable to the human API segment.

<sup>1</sup>100 lakh = 1 crore = 10 million

<sup>2</sup>For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

The ratings factor in AAHL's sustained business growth momentum driven by its entry into new geographies through inorganic growth, its robust product pipeline across segments and SSL's management's extensive experience in the pharmaceutical industry, which ensures established relations with global pharmaceutical majors. SSL's consolidated financial profile is characterised by sustained revenue growth, a comfortable capital structure, as reflected by gearing of 0.42 times as on March 31, 2017, and a healthy liquidity profile as reflected by strong cash and liquid investment balances (Rs. 107.64 crore as of March 31, 2017). Furthermore, SSL's (consolidated) strong position in the animal healthcare segment in therapies like anthelmintic, anti-protozoal, nonsteroidal anti-inflammatory drugs, ectoparasiticides and feed-additives and a diversified customer base across 55 geographies lends revenue visibility. ICRA also notes that the recent US Food and Drug Administration (USFDA) approval for the Vizag (Andhra Pradesh) facility will enable SSL (consolidated) to expand its reach to the US, which is the largest market for animal healthcare.

ICRA, however, notes that post the divestment of the human API business, SSL (consolidated) will be solely dependent on the animal healthcare business. ICRA also notes the significant loan repayments due in the near term, which will exert pressure on the company's liquidity profile. The ratings also consider the high capital-intensive nature of the animal API business, primarily for animal API, and the vulnerability of SSL (consolidated) revenues and profit margins to foreign exchange fluctuations. ICRA, however, notes that the company has completed its capital expenditure plan, barring US\$ 3-4 million towards the veterinary formulation facility establishment in Spain, which will limit external borrowings. The ratings also factor in the high regulatory risk following increasing scrutiny and stricter controls by the regulatory authorities of developed countries. Moreover, given the history of inorganic growth, any large debt-funded acquisition could impact the credit profile. While ICRA expects the company to maintain its credit profile, sizeable inorganic investments remain an event risk and would be evaluated on a case by case basis for its impact on the ratings.

## Outlook: Stable

ICRA believes that SSL (consolidated) will benefit from the acquisitions made by AAHL in the past two years by way of increased presence in the global animal healthcare market. The outlook may be revised to Positive if sustained growth in revenue and profitability strengthens the company's financial risk profile and its cash flows. The outlook may be revised to Negative if cash accruals are lower than expected, or if any unplanned capital expenditure or acquisition results in an increase in total debt and exerts pressure on the liquidity profile.

## Key rating drivers

### Credit strengths

**Healthy revenue growth and improvement in profitability** - SSL (consolidated) reported healthy revenue growth and an improvement in profitability in its continuing business i.e. animal API and formulations in FY2017 and 9M FY2018, following the integration of the operations of various entities acquired over the past two years under AAHL. Despite the divestment of the human API business, consolidated revenues stood at Rs. 745.9 crore in 9M FY2018 compared to Rs. 729.2 crore in 9M FY2017, reflecting the revenue growth in the animal API and formulations segments.

**Financial profile characterised by comfortable gearing and healthy liquidity** - SSL's consolidated financial profile is characterised by a comfortable capital structure as reflected by the gearing of 0.42 times as on March 31, 2017 and a healthy liquidity profile as reflected by cash and liquid investments of Rs. 107.6 crore as on March 31, 2017. While, total debt, at the consolidated level has remained high (Rs. 417.6 crore as on March 31, 2017), the company's strong tangible net worth has maintained the gearing at a comfortable level.

**USFDA approval for Vizag facility will help AAHL's entry into the largest animal healthcare market** - SSL received USFDA approval for its animal health API facility at Vizag, Andhra Pradesh in May 2017, making it the only USFDA-approved dedicated plant for animal API in India. The approval has enabled AAHL to expand its reach to the US, which is the largest market for animal health care.

**Diversified customer base across geographies lends revenue visibility** - While SSL (consolidated) addresses 50% of the global veterinary market, it derived 36% of its revenues from Europe in FY2017, followed by Asia accounting for 23% of revenues and the rest of the world accounting for the balance. AAHL has entered new geographies such as Turkey, Belgium, Sweden, the Netherlands, Brazil, Mexico and Spain through the inorganic route over the past three years. Its increasing presence across major veterinary markets such as Europe, Turkey and Brazil, along with India lends revenue visibility for the medium term.

**Promoters' and management's extensive experience in the pharmaceutical industry** - SSL's management has over two decades of experience in the pharmaceutical business across global markets, which has ensured established relations with global pharmaceutical majors.

## Credit challenges

**Solely dependent on animal healthcare business post divestment of human API business** - With the demerger of its human API business, which contributed 27% to FY2017 consolidated revenues, the veterinary business is the core focus for the Group. Thus, SSL's (consolidated) future growth would be solely driven by the veterinary segment. Nevertheless, ICRA notes that SSL's (consolidated) top-line from continuing operations increased 7% YoY in Q3 FY2018.

**Significant loan repayments due in the near term, likely to exert pressure on company's liquidity** - The total debt for SSL (consolidated) was Rs. 417.64 crore as on March 31, 2017, comprising Rs. 221.16 crore long-term loans availed for capital expenditure and inorganic growth. While increasing the scale of operations and cash accruals are likely to improve its liquidity profile further, the company has significant loan repayments due in the near term - Rs. 44.38 crore in FY2019 and Rs. 38.16 crore in FY2020 - which will exert pressure on SSL's (consolidated) cash flows.

**Credit profile remains vulnerable to any large debt-funded acquisition or sizeable inorganic investments** - While AAHL has completed its capital expenditure plan, barring US\$ 3-4 million towards a facility establishment in Spain, which will limit external borrowings, given the history of inorganic growth, any large debt-funded acquisition could impact SSL's (consolidated) credit profile.

**Revenues and profit margins remain vulnerable to foreign exchange fluctuations** - SSL's revenues and margins are exposed to currency fluctuations 64% of revenues of AAHL (standalone) revenues and ~15-20% of revenues of its overseas subsidiaries are derived from export sales. SSL (consolidated) reported foreign exchange loss of Rs. 12.6 crore in FY2017 majorly due to loss on loans extended to overseas group companies.

**High regulatory risk given increasing scrutiny and stricter controls by regulatory authorities of developed countries** - The pharmaceutical industry is regulated as per the guidelines of the Food and Drug Administrators (FDA) and pharmaceutical regulatory authorities of target markets. Plant, processes and products have to be approved before the commencement of sales to these countries. This exposes AAHL's operations to regulatory risks in the form of stricter regulations and scrutiny along with changes in the regulatory landscape, which could affect its operations.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Entities in Pharmaceutical Industry](#)

## About the company:

Incorporated in 1985, Sequent Scientific Limited has a presence in animal APIs and veterinary formulations and bio-analytical services. Until September 2017, SSL (standalone) was engaged in manufacturing human APIs but this segment was demerged following which SSL became a pure-play animal health company. At present, SSL (consolidated) manufactures veterinary APIs and formulations in its wholly-owned subsidiary, AAHL, and offers analytical services to the pharmaceutical industry through another wholly-owned subsidiary - Sequent Research Limited (SRL). SSL's (consolidated) portfolio consists of about 23 commercial products in animal health APIs and 450 products across 12 dosage forms. Post demerger of the human API business, it has six manufacturing facilities across India, Spain, Turkey and Brazil.

In FY2017, SSL (consolidated) reported profit after tax (PAT) of Rs. 1.2 crore on an operating income (OI) of Rs. 898.6 crore, compared to a net loss of Rs. 18.0 crore on an OI of Rs. 607.1 crore in FY2016.

For the nine-month period ended December 31, 2017, SSL (consolidated) reported a PAT of Rs. 1.83 crore on an OI of Rs. 630.83 crore (from continuing business).

## Key financial indicators (audited)

	Standalone		Consolidated	
	FY2016	FY2017	FY2016	FY2017
Operating Income (Rs. crore)	394.59	378.40	607.13	898.64
PAT (Rs. crore)	10.39	-0.01	-17.97	1.05
OPBDIT/ OI (%)	9.59%	2.96%	9.55%	11.26%
RoCE (%)	2.96%	0.65%	2.38%	2.79%
Total Debt/ TNW (times)	0.04	0.07	0.33	0.42
Total Debt/ OPBDIT (times)	1.29	7.78	5.39	4.13
Interest coverage (times)	2.30	1.34	1.52	2.79
NWC/ OI (%)	22%	46%	40%	15%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)		Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
			As on September 2017	March 2018				
1 Term Loans	Long-Term	27.42	17.42		[ICRA]BBB+ (Stable)	[ICRA]BBB+ & (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BB (Stable)
2 Fund-based Limits	Long-Term	71.00	-		[ICRA]BBB+ (Stable)	[ICRA]BBB+ & (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BB (Stable)
3 Non-fund Based Limits	Short-Term	69.00	-		[ICRA]A2+	[ICRA]A2+&	[ICRA]A2+	[ICRA]A2+
4 Interchangeable Limits	Long-term	(25.00)	-		[ICRA]BBB+ (Stable)	-	-	-
5 Interchangeable Limits	Short-term	(50.00)	-		[ICRA]A2+	-	-	-

*&-on rating watch with developing implications*

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	August 2016	11.20%	September 2020	13.97	[ICRA]BBB+ (Stable)
NA	Term Loan-II	August 2016	11.20%	October 2018	13.45	[ICRA]BBB+ (Stable)
NA	Pre-shipment Export Credit	-	-	-	71.00	[ICRA]A2+
NA	Post-shipment Export Credit	-	-	-	71.00*	[ICRA]A2+
NA	Invoice Financing	-	-	-	71.00*	[ICRA]A2+
NA	Working Capital Demand Loan	-	-	-	36.00*	[ICRA]A2+
NA	Cash Credit	-	-	-	46.00*	[ICRA]BBB+ (Stable)
NA	Letter of Credit	-	-	-	69.00	[ICRA]A2+
NA	Bank Guarantee	-	-	-	29.00**	[ICRA]A2+

\*Sublimit of Rs. 71.00 crore of pre-shipment credit

\*\*Sublimit of Rs. 69.00 crore of letter of credit

Source: Company

## ANALYST CONTACTS

### Subrata Ray

+91 22 6114 3408  
[subrata@icraindia.com](mailto:subrata@icraindia.com)

### Kinjal Shah

+91 22 6114 3442  
[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

### Pragya Sharma

+91 22 6114 3454  
[pragya.sharma@icraindia.com](mailto:pragya.sharma@icraindia.com)

## RELATIONSHIP CONTACT

### L Shivkumar

+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

### Ms. Naznin Prodhani

Tel: +91 124 4545 860  
[naznin.prodhani@icraindia.com](mailto:naznin.prodhani@icraindia.com)

### Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents