Balaxi Pharmaceuticals Limited
Q2/H1 FY23 Earnings Conference Call
November 09, 2022

Management:

Mr. Ashish Maheswari – Chairman & Managing Director

Mr. Amol Mantri – Chief Financial Officer

Mr. Pranav Maheshwari, Head – Latin America

Mr. Sunny Purohit, VP and Chief of Staff (MD's Office)

Moderator: Ladies and gentlemen, good day and welcome to Balaxi Pharmaceutical Limited Q2 and H1 FY23 Earnings conference call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Maheshwari, Chairman and Managing Director of Balaxi Pharmaceuticals. Thank you and over to you, Sir.

Ashish Maheshwari: Good evening everyone. A very warm, welcome to Balaxi Pharmaceuticals Limited's earnings conference call for the second quarter ended September 30th 2022. Our Investor presentation is already uploaded on the stock exchanges and our website for your reference, I'll take you through some of the key highlights of our business and the recent performance parameters. Subsequently, we look forward to an interactive session with all of you to take the conversation forward and give you a deep perspective of our outlook on the business.

From the standpoint of the frontier markets that we address here at Balaxi Pharmaceuticals Ltd, on an aggregate, the collective GDP of these countries in Latin America and Africa, already in our visibility is about $400 billion. These countries have been identified basis of the long term potential that they hold for growth from the space that we operate in, with aggregate Pharma imports of $6 billion annually.

We currently have our own distribution networks reaching deep into Guatemala, El Salvador, Honduras, and Dominican Republic in the Latin American markets. In addition, we've established a wide and deep business in Angola over the last several years. These markets have significant dependence on generic drug imports, the demand, which is expanding rapidly, and the outlook for expansion remains robust. We expect to leverage existing framework to expand presence in more countries in these regions, including Nicaragua, Chile, and Ecuador in Latin America and Central African Republic in the African continent.

Historically, we have created an outsourced supply chain mechanism across India, China and Portugal. Recently, we announced our intention to, set up an EU-GMP compliant pharmaceutical manufacturing unit located near Hyderabad which is currently under implementation and will create a significant measure of supply integration and control, once operationalized. This quarter marks the third consecutive quarter post complete consolidation of Angola business. Therefore, when it comes to our Q2 FY23 revenue and margin performance year on year numbers are not strictly comparable and only sequential comparison would be appropriate. Our pharmaceutical revenues are up 50% as we continue to proliferate in the Latin American geographies, apart from a consolation presence in Angola.

Our revenues for this quarter stood at INR 86.40 crore, delivering 23% growth quarter on quarter. This was mainly driven on back of strong volume growth Latin American markets. Within the pharmaceutical segment, the previously launched geographies of Dominican Republic and Guatemala delivered strong expansion. Meanwhile, we expect Honduras and El Salvador which are currently at a nascent stage to witness encouraging scale up in revenues in the coming quarters. We expect to see further improvements in all these countries on the back of products launched as well as significant pipeline of products that are scheduled to be launched as per plan.

Our Q2 operating EBITDA is INR 14.80 crore has seen a sequential increase of 5.2% despite absorbing higher cost structures in several newly launched operations in countries that should scale up to potential over the next few years. Meanwhile, EBITDA margins stood at 17.1% increased by 46 basis points compared to the previous quarter.

Here, it is pertinent to highlight the profitability in markets that are relatively well-established remains stable. In addition, our operating margins reflect cost absorption of new geographical expansion that would be expected to see higher contribution in future.

Profit after Tax stood at INR 15.50 crore which is a 28.5% increase from the previous year same quarter. Earnings per share for the quarter was at INR 15.49.

Having said that, we remain positive on our business outlook on the back of 745 product registrations in six countries as at present and 646 new registrations submitted or in the pipeline to be submitted to various departments of health in various countries. During Q2, as discussed earlier, we initiated our manufacturing initiative and supporting the project was our successful issuance of equity shares and warrants aggregating into INR 49.61 crore on a Preferential Basis. Proceeds will be utilized to part finance our planned EU GMP-compliant facility for Oral Solid Dosages and Liquid Injectables. We completed land acquisition previously, a leading construction has been appointed for project execution and the ground breaking ceremony is scheduled on December 12th of this year. Commissioning is targeted in March of 2024.

With this I thank you for your attention and close my opening comment. You will now be happy to address your questions on this call and look forward to an interactive session. Thank you.

Moderator: Thank you, we will now begin the question and answer session. The first question comes from the line of Faisal Hawa from H.G Hawa And Co. Please go ahead.

Faisal Hawa: How much of the new machineries and this thing has been ordered out and are our limits also in place from the banks? And is there any kind of a cost overrun that we foresee in the near future where we may have gone wrong on any kind of costing? And did you said 2024 we will be commissioning the unit.

Ashish Maheshwari: March 2024 will Commission the unit. The groundbreaking is on December 12th of this month. Right now, we are working on the detailed designing part of it. And we should be floating the tender for the civil works in the next two weeks or so, and we will ensure that on December 12th we start our actual construction.

Faisal Hawa: What is the peak revenue we can expect from this plant?

Ashish Maheshwari: So what I would like to mention here is that this plant is firstly a backward integration project, and secondly this plant will open up new markets for us after we get the EU-GMP approval. Let's say six months after we operationalize this plant, we hope to get the EU-GMP approval, and once we get the EUGMP approvals there will be many more markets that should open up for us in Southeast Asia, in Central African and in Latin America also. Having said that, I first said that it is a backward integration project, so we will see two things by investing in this effect, one is our costing are going to go down because right now it's a completely outsourced model, so the cost of our product will actually go down. Secondly, we will have much better control over the delivery period that we want for our particular products, second and thirdly we will be having an edge in the market with the quality of the products being EU-GMP compliant, so all the other competitors that we face in this field today in Latin America and Africa also source from WHO-GMP plants like ours, they are not sourcing from an EU-GMP plant, so our quality will have an edge and qualities plays a major, major role in Latin America. So that is the edge we will get immediately in the very first financial year of the plant getting operationalized in FY24-25. We'll see profitability going up. We'll see volumes going up, and we'll also be entering new markets. And then the direct benefits of revenues getting increased from the plants will start from FY25-26. So FY24-25 we will be will be seeing these things where profitability will be going up and we'll be quick in the market will be seeing much better quality and we expect to have a price commanding of over 3%-4%, we will be able to provide a better price.

Moderator: Thank you. Next question comes from the line of Yogesh Tiwari from Arihant. Please go ahead.

Yogesh Tiwari: I had a query on the cost front. So how do you see the trajectory of solvent prices and the different APIs? Since the base prices have started declining so has that passed on to solvent prices and APIs and others in Q3 as well?

Ashish Maheshwari: API was in a rising trajectory for the past one year so, but from the in last 2-3 months we have seen prices softening both in APIs and in packing materials. Going forward, we think the up-ward trajectory has now plateaued out and prices will go down a bit, but they will definitely not go up from here now, because there was a major increase in raw material price.

Yogesh Tiwari: And in terms of the solvent prices, which is linked to crude, that has declined significantly?

Ashish Maheshwari: No, I am not in a position to tell you about solvent prices, right now I am only following API prices.

Yogesh Tiwari: Sure, Sir. Lastly, since most of the raw materials we import from China as well, with the current lockdown, which has been going on, is there any supply disruption in terms of raw materials for us or for the industries as a whole?

Ashish Maheshwari: No, we have not seen any supply disturbance, in spite of, what we read in the media of the continuous lockdowns We are not seeing any supply disruptions in the pharmaceutical sectors.

Yogesh Tiwari: OK. I understand that most of that would come through the sea route, so none of the ports of China is like under lockdown. That's what I mean.

Ashish Maheshwari: It's not that all the ports are under lockdown, they are working a little slowly, so the transit time has gone up a bit, but as it stands the market is not seeing any disruptions is what I can tell you. Raw materials are coming into India. Our finished formulations are being shipped from China on time. We are not seeing supply chain delays. What we saw one year back or probably two years back, we're not seeing that now, things have stabilized. Ocean freights have stabilized. Ocean freight had gone up by 400% one and half years back, which has now come back to normal levels of we're just being a 50% more of what we used to pay earlier. So things are stabilizing, in spite of, what we're reading in the media, we are not seeing any major supply chain disruptions.

Moderator: Thank you. As there are no further questions, we have reached the end of question and answer session. I would now like to hand the conference over to Mr. Maheshwari for closing comments.

Ashish Maheshwari: Thank you Mr. Faisal and thank you Yogesh for attending the conference and I would like to thank all those attendees were attending on this call. I look forward to my interaction on the next earnings call. Thank you very much.

Moderator: Thank you on behalf of Balaxi Pharmaceuticals Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.