



Balaxi Pharmaceuticals Limited
Q1 FY23 Earnings Conference Call
August 18, 2022

Management:

Mr. Ashish Maheshwari – Managing Director

Mr. Amol Mantri – Chief Financial Officer

Mr. Pranav Maheshwari – Sr. VP (Business Development)

Moderator:

Ladies and gentlemen, good day and welcome to the Balaxi Pharmaceuticals Limited Q1 FY23 Earnings Conference Call. From the senior management, we have with us today, Mr. Ashish Maheshwari – Managing Director and Mr. Amol Mantri – Chief Financial Officer.

As a reminder, all participants' 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ashish Maheshwari from Balaxi Pharmaceuticals Limited. Thank you, and over to you, sir.

Ashish Maheshwari:

Good evening. A very warm welcome to the Balaxi Pharmaceuticals Limited's Earnings Conference Call for the first quarter ended June 30, 2022. Our investor presentation is already uploaded on stock exchanges and our website for a ready reference.

I'll take you through the presentation starting by talking about the economy in general and the business highlights for Q1 FY23 of the company. As we all know, we are seeing a lot of changes in the macroeconomic scenarios over the past quarter domestically and internationally, with a changing landscape. There seems to be some downsides to the growth story presently, but it will not impede scale in the longer term.

Talking about India's pharmaceutical cumulative exports this quarter, it has witnessed a whopping growth of 22%. The exports of Made in India foreign product continue to touch new heights. India currently occupies the fifth position in terms of Pharma exports.

In our existing and targeted frontier markets, on an aggregate, the GDP is of \$400 billion and Pharma imports are of \$6 billion. The Central American countries broadly reported 2.6 billion of pharmaceutical imports. Guatemala is the biggest pharmaceutical markets in Central America and expected to grow at 8.1% CAGR. Guatemala, El Salvador and Honduras will remain dependent on generic drug imports, which benefits Indian pharma companies to tap the potential pharmaceutical markets of these countries. Angola is the second largest oil producer in Africa and all its pharmaceutical imports are regulated by the Ministry of Health, its government's National Health Development Plan, which is focused to promote increased drug generics and generic substitution in pharmacies.

To summarize, I am pleased to inform our dear shareholders that in spite of the headwinds that we faced, Balaxi has been constantly able to deliver on the top line and bottom line front

in this quarter. Our revenue for this quarter stood at INR 83 crore, which has grown by 42% compared to the same period of the previous year. This was mainly driven on the back of strong volume from Latin American markets. We have also derived currency translation benefits in Angola.

The gross margins for the quarter posted was a record 42%, which is a giant leap of 12.9%. The gross margins posted are intrinsically higher, especially for the value-added, branded products, which is a clear roadmap for Balaxi.

EBITDA for the quarter stood at INR 17 crore, which has grown by 36% on a year-on-year basis. Profit after tax stood at INR 14 crore, which is a 32% increase from the previous year in the same quarter.

However, please note that these quarterly figures are not strictly comparable with the same period of last year due to the consolidation of Balaxi Healthcare LDA Angola, which became a wholly owned subsidiary of Balaxi Global DMCC with effect from 1st January 2022.

Having said that, the record figures have performed well on the back of robust demand witnessed in the LATAM markets and increased contribution of branded products to 35% from the previous 30%. The product price for dosage forms has also increased with tablets and injectables from the previous year.

Balaxi's operating cost structure – both people and organizational costs – has increased substantially with the entry into several new markets. This includes establishment and product registration expenses in countries that are not contributing to sales at present. Going forward, as business scales up, we expect a positive contribution to margins from revenue growth as well as geographical diversification.

As indicated previously, we are making good progress on the planned EU GMP-compliant manufacturing facility near Hyderabad. Production is expected to commence by March 2024, focusing on Oral Solid Dosages and Liquid Injection formulations in Latin American markets where we are rapidly gaining visibility. The estimated project investment of Rs. 85 crore will be financed partly from internal accruals and a judicious mix of additional capital. With the seamless transition from outsourcing to manufacturing in existing geographies, we see a strong payback apart from several strategic benefits for the business from this segment.

With that, I open the floor for the questions-and-answers. Thank you.

Moderator:

Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question comes from the line of Archana Gude from IDBI. Please go ahead.

Archana Gude: I have two, three questions. First is starting with the quarterly numbers. Sir, when there has been impressive growth in terms of gross margin expansion, you know, the EBITDA margins are kind of subdued, let's say, by 100 bps on YOY basis. You did mention that there has been incremental employee cost, but still if you can just take us through line by line item and give us what kind of sustainable EBITDA margin we should expect going forward would be helpful?

Ashish Maheshwari: EBITDA margins have seen probably a 1% up or down, but EBITDA margins we will be seeing in this range only, because after the consolidation of Angola as a wholly-owned subsidiary of Balaxi Pharmaceuticals, our expenses of Angola are also being consolidated so all the expenses of Angola also came into our sales and EBITDA margins slightly differ from 1% to 2%, but going forward EBITDA margins are going to remain 19%.

Archana Gude: Sir, on slide number 21, you have mentioned that the focus will be on the ideal mix of branded and generic medicines going forward. So like once our plant will be operational in Hyderabad, how we should look at this mix going forward? And let's say, as and when this branded percentage goes up, what kind of incremental margin improvement we should expect, let's say, two years or three years down the line?

Ashish Maheshwari: We have grown our branded products from around 30% of total sales to 35% in the last financial year, and now our target is to take it slowly to around 47-48% in the next three years. From the EU GMP plant, we are going to select certain products which have the bandwidth to be branded well because of the efficacy and the quality that we are going to get from that plant. So after the EU GMP plant, we expect a higher mix of branded products. Over the next two years, we expect 45%, but after the EU GMP plant, we expect to go with about 60%, and we have seen in branded products after deducting the expenses which go along with the branding element, margins go up by at least 10 to 12% apart from assured volumes.

Archana Gude: So does that mean, let's say, three years down the line, there should be substantial push to our margins?

Ashish Maheshwari: There will be a substantial push both because of the branded product segment going up and because of we having our manufacturing facility. We are right now doing contract manufacturing in various plants. So when we do it in our own facility, of course, whatever margins that we pay out today to our suppliers, we will be capturing that economic interest also in our balance sheet.

Archana Gude: And maybe one last question from my end. Sir, after putting INR 85 crore for this plant, what kind of asset turn we should expect, let's say, for FY25?

Ashish Maheshwari: Asset turnover ratio we have calculated at around 6 to 6.5 times.

Moderator: Thank you. Next question comes from the line of Sunny Agarwal from SBI Securities. Please go ahead.

Sunny Agarwal: Sir, basically two questions. What is our market share in the territory in which we are operating? Question number one. And question number two is who are our competitors in all these markets and the new markets which we are trying to enter into?

Ashish Maheshwari: It is difficult for us to say what is our correct market share supported by data in Angola, but as per our records, as per what we see, and as per our visibility, and as per our market intelligence, we are in the top three in Angola. We can be number two or number three. In Dominican Republic, now there are various kinds of markets in Latin America which has a multinational branded market, which is a different market. It has a market, well, for products which are manufactured locally which is a different market, and it has a market for products sourced from geographies like India and China.

So in this addressable market size that we call, India and China, we are number two in our current Latin American markets of Dominican Republic and Guatemala. In Dominican Republic, as per market intelligence that we have now, we are the number one. In Guatemala, we are the number two in this addressable market size.

Sunny Agarwal: And sir, who are our key competitors, if you can name them?

Ashish Maheshwari: In Africa, there is a company called Shalina, which is from India which is our key competitor and there is another company called Prince Farma, which is also from India which is yet another our key competitor. In LATAM markets, our key competitor is Caplin Point from India.

Sunny Agarwal: And sir, just the last question. Any regulatory risk we see in all these frontier market or emerging market whatever we say? So right now the regulation is relatively lenient in all this territory. So any risk we see to our business in medium to long term?

Ashish Maheshwari: We don't see any regulatory risk going forward, because we are sourcing from the best WHO GMP certified plants, and we take a lot of care that all our certifications and validation of the plant always remain valid. And going forward with our own plant which will be EU GMP compliant, we don't see any kind of risk in the regulatory aspects in Latin America or Africa.

Moderator: Thank you. Next question comes from the line of Avinash Gorakshakar from Profitmart Securities. Please go ahead.

Avinash Gorakshakar: Just had a couple of questions. First is I wanted to know, you know, the revenue has increased significantly by 42%. So can you tell me what has been the volume increase, you know, because this value increase is 42%, but in terms of volume, you know, quantity wise, could you give us some idea, what has been the kind of volume growth?

Ashish Maheshwari: See this 42% growth as I have already told in my opening remarks is not strictly comparable to the previous quarter, because from 1st January 2022, Angola has been consolidated with Balaxi Pharmaceuticals Limited because it has become a wholly-owned subsidiary. So the sales that you see here are sales added from Angola also. Till now, only what was billed from here to Angola was being shown in the consolidated results. Now the sales in Angola are being shown, which are at a much higher numberso that is why the sales are not strictly comparable.

Coming to your second point about volume growth, in LATAM, volume growth, I will ask Pranav. Pranav, in terms of volume growth in LATAM in this quarter, I think it is been around 40-45%. Can you confirm that?

Pranav Maheshwari: Yes, it will come around 50% growth in volume in Guatemala this quarter.

Pranav Maheshwari: By volume around 45% - 50%.

Avinash Gorakshakar: Ashish Ji, another question I wanted to understand. In your opening remarks, you said the gross margin has been aided by cross currency translation. So, you know, typically, can we expect this to continue in the coming quarters also or will there be any moderation here going ahead?

Ashish Maheshwari: No, we have seen over the past several years that the Indian rupee generally depreciates against the US dollar, and with our experience whatever we have, we can say that around, 1.8% - 2% of revenue we always see in exchange rate profits. This particular quarter, we have seen extra exchange rate profits coming in from Angola, because, when the entire world's currencies are being devalued against the dollar, the Angolan Kwanza appreciated against the dollar. So this quarter is a little higher than normal because of that but going forward, we don't see this happening very often in Angola, but India, as I told you, it happens every year.

Avinash Gorakshakar: Ashishji, one question which I wanted to ask which is related to, you know, one of the participants that the new facility which company is putting is going to involve a capital expenditure of INR 85 crore. I wanted to understand is this amount going to be fully invested this year or will it be distributed in FY23 and FY24, if you could get the lineup of the CAPEX schedule?

Ashish Maheshwari: It will be distributed. We are starting the work. All the designs are being fully finalized now, and we are starting work in September. We are working very hard on the designing part. So it will be distributed from September 2022 to up till March 2024 over the period of 18 months.

Avinash Gorakshakar: So can we assume that about INR 25- 30 crore of CAPEX will be coming this year, I mean, very, very conservatively?

- Ashish Maheshwari:** Yeah. At least INR 30 crore because we will be releasing advances and all for machineries also in this financial year and the balance in next financial year. In fact, INR 5 crore has already gone in and the balance INR 50 - 55 crore will go in the next financial year.
- Avinash Gorakshakar:** Just my last, Ashish ji, that on the Latin American markets, you know, since you said volume growth has also been very strong, value growth has been very strong. So, in general, you know, how do you see the picture for the next 12 months? Like what is your kind of reaction and observation on the state of the market? Like do you expect this kind of healthy growth to continue and get reflected in FY23 also, if you could share some ideas?
- Ashish Maheshwari:** Yes. Latin American markets, we are guided by the number of registrations that we keep receiving for our various products. And in this entire year, we are expecting at least 40% to 42% growth in revenue from Latin America. It can be higher also. And just to give reference to the context in the entire last financial year, we got product registrations of 82 products in LATAM, and this year in the very first quarter itself, we received 42 products. So as and when we keep receiving more products, not only do we get additional revenue from these products, but then more and more wholesalers get into our chain because looking at a number of products, and other products also sell on the higher range.
- Moderator:** Thank you. [Operator Instructions] Next question comes from the line of Alisha Mahawla from Envision Capital. Please go ahead.
- Alisha Mahawla:** Sir, while you did mention to an earlier participant that the volume growth, the YOY, can you also tell us what was the volume growth Q-on-Q, Q4 of last year versus this year?
- Ashish Maheshwari:** Q4 of last year versus this year, we have not worked it out here, Alisha. We can work it out and let you know.
- Alisha Mahawla:** Because the revenue is largely flat, I just wanted to know if there has been a volume growth Q-on-Q.
- Ashish Maheshwari:** We'll definitely let you know.
- Alisha Mahawla:** Also, you were mentioning that the FOREX translation gain in this quarter has been slightly higher. Is it possible for you to quantify that number?
- Amol Mantri:** So this quarter, the FOREX gain total to around INR 3.28 crore.
- Alisha Mahawla:** And this is part of the other income, right?
- Amol Mantri:** Yes.

- Alisha Mahawla:** And just one more clarification. The margins of 19% that we are targeting to maintain, this calculation includes other income.
- Amol Mantri:** Yes.
- Alisha Mahawla:** And you were mentioning in the opening commentary that there is obviously some up fronting of course because of new registrations in newer geographies. Which new geographies are we targeting?
- Ashish Maheshwari:** We are targeting El Salvador, Honduras, Nicaragua are the three geographies on which we are working very actively in terms of product registrations and making our on-ground infrastructure. We have registered our company in Ecuador, and we are registering the company in Chile. These are the five or six new markets which we are getting into and apart from that, in Guatemala, we are increasing our number of products that we are getting registered.
- Alisha Mahawla:** And of the five, six markets, are we expecting any of these to start contribution this year or post the registrations, and so it will be more like in one or two years?
- Ashish Maheshwari:** In El Salvador and Honduras, we have already started operations in a very small way, and a lot of goods are in transit. We expect good traction in El Salvador and Honduras starting from around November, December. So you will see very good traction in Q4 of this year in El Salvador and Honduras.
- Alisha Mahawla:** And just one last question. The EU GMP plant that we are talking about, which you were saying is going to be through internal accruals and additional capital, are we talking about debt or any form of fundraise?
- Ashish Maheshwari:** We are contemplating both of them. Some debt and some fundraise, but we have not yet finalized it. We will finalize it in this month.
- Moderator:** Thank you. Next question comes from the line of Anand Venugopal from BMSPL Capital. Please go ahead.
- Anand Venugopal:** Just I had a question like how will we see the broad market share evolving in the medium to long term periods in percentage terms?
- Ashish Maheshwari:** Market share in percentage terms, as I earlier said, is a little difficult to find out from data, because the Latin American market as such has various markets within them. There is a market for MNC branded products. There is a market for Latin American-made products. Then there is a market for companies like us, which are getting products manufactured from India and China. So our addressable markets is with this particular products which are being made in India and China. So we don't have specific data on what is being imported, but as per market intelligence

and what we see in the market, and the volumes that we see in the market, we can say that we are probably number one now in Dominican Republic and number two in Guatemala in this particular addressable market size.

Anand Venugopal: So will the frontier market exposure be reduced in the longer term as the focus shifts towards regulated markets?

Ashish Maheshwari: No, our focus will be on the frontier market for the next four to five years to come, reason being there is a lot of head room there for us for growth. So we are not looking at shifting our focus from these markets to the regulated markets of Europe and North America. We will focus on frontier markets for the next five years at least.

Anand Venugopal: Just last one follow-up question. What is Balaxi's market selection process as such?

Ashish Maheshwari: See, we look into the GDP per capita, the regulatory process of the country. We also look at the other barriers to entry, and the more the barriers to entry, the more we like the kind of market and select that market.

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

Yogesh: Sir, I had one question. So it's like in Q1 FY23, Angola was about 60%, and Latin America was about approximately 40%. But since you told that you are focusing on the Latin American market, then the new plant will also come. So can we expect Latin America overtaking Angola in the next two or three years?

Ashish Maheshwari: Yes, of course. We are targeting that Latin America must contribute 65%, and Angola must come down to 35%. That's our thing even with the increased volume in sales.

Yogesh: And sir, what would be the margin differential between Latin American markets and African markets like Angola? Is the margin higher in Latin America compared to Angola and those?

Ashish Maheshwari: Gross margin is higher in Angola, but having said that, the expenses are also very high in Angola. So the net profits are not as good as Latin America.

Yogesh: So at the EBITDA level, Latin American markets are more lucrative than?

Ashish Maheshwari: Yes.

Yogesh: And the differential would be like the difference between Angola and Latin America, the EBITDA level. It would be like 3%-4% margin difference.

Ashish Maheshwari: A little higher than that.

- Yogesh:** So any guidance for revenue and EBITDA, for if I look at three to five years for the company?
- Ashish Maheshwari:** In FY25, Amol, what are we projecting at the top line internally?
- Amol Mantri:** FY25, the top line is around INR 564 crore.
- Ashish Maheshwari:** Around INR 550 crore of top line is what we are projecting FY25.
- Yogesh:** And the margins would be in the same range, operating margin?
- Ashish Maheshwari:** Same range. In the same range.
- Yogesh:** Same range. And lastly, on the Latin American market, if you can share what is the competitive landscape in Latin America? Is there a tough competition or prices are increasing or there's pressure on pricing and volumes, if you can share any regulatory action?
- Ashish Maheshwari:** See, it being a semi-regulated market, it is not easy for anyone to enter those markets, especially with our business model where we have more than 100 products registered, and we have stocks on the ground. So it is a good healthy market. It does not have pricing pressure, and especially for us, we don't have pricing pressures, because of number of products that we have and the ongoing availability that we have for our products. We don't see any pricing pressures. In fact, during this COVID years when the freight rates increased by nearly 300-400%, and all raw material prices increased by 20-25%, we were able to pass on the entire freight and raw material price increases to the final customers.
- Yogesh:** So there is not much of pricing pressure like we have in US and other regulated markets?
- Ashish Maheshwari:** No. This is a very different model that we work on. The companies that work in the US and the Europe from India work on a different model, they are mostly in the contract manufacturing model, but we are selling. We don't do contract manufacturing. We are the brand. We get contract manufacturing done, and then we take our products. We stock them on the ground there, and then we sell them through various channels. So it's a very different business model from what is happening from India to US and Europe.
- Moderator:** Thank you. Next question comes from the line of Keshav from RakSan Investors. Please go ahead.
- Keshav:** Sir, what percentage of our sourcing currently is from China?
- Ashish Maheshwari:** China, we are sourcing significantly from India right now, around 30% comes from China or a little less than that.

Keshav: So the manufacturing facility that we would be putting up, it would be a formulation facility, right?

Ashish Maheshwari: Yeah. It is a formulation facility.

Keshav: Sir, are we not exposed to ROC risk then with manufacturing in-house?

Ashish Maheshwari: No, we are not because we have to keep in mind that from wherever we are buying right now, they have to keep their own margins. They keep their own margins and then sell the product to us. So all those margins will be saving, and we have calculated the margin that we are giving out definitely much more than what the Opex we will be having here.

Keshav: So, sir, sustainably so, because we will then be exposed to the working capital value chain of formulation and that adds many other variables, which I'm sure would be quite new to us from a manufacturing point of view.

Ashish Maheshwari: Yeah. There can be new variables. There are two dimensions to your question. One is that manufacturing itself can be all new process for the company. That is one. And secondly, I would like to say that this manufacturing is just not about backward integration and saving cost. This manufacturing is also about us differentiating ourselves in the LATAM markets. Our competitors source their products from exactly the kind of manufacturers we go to and the kind of packing we do and the kind of tablets and capsules products we give.

So this EU GMP compliant plant will be a differentiator not only in the quality of our product, but also in the efficacy and presentation of the product, and those are markets which believe in EU GMP certifications, and there will be upside in pricing also for us. Once we establish ourselves there, it will take up to a year after we start manufacturing that these products are coming from the EU GMP certified plant.

As far as manufacturing being a new activity for the company, we are quite confident that we can handle manufacturing. I have handled manufacturing in the initial five to six years of my life, and I know how it works. Having said that, we are keeping a very good ESOP system in place to get the best technical people to run our plants.

Moderator: Thank you. [Operator Instructions] Next question comes from the line of Sachin Shetty, an individual investor. Please go ahead.

Sachin Shetty: Sir, can you please give me a revenue breakup for Quarter 1 is the INR 83 crore. How much generated from LATAM market and Angola for African market? Is it possible, sir?

Amol Mantri: So Angola market, the total revenue was to the tune of INR 60 crore and remaining INR 22 crore came from LATAM market.

- Sachin Shetty:** And sir, how big is this LATAM market as far as opportunity is concerned? Because Latin American market is more lucrative. So going forward, how much incremental revenue we can see in the LATAM market for the next three years as we have filed many dossier products for registration (inaudible 00:31:45)?
- Ashish Maheshwari:** Minimum, we are going to see 40% to 45% growth in revenue for the next three years.
- Sachin Shetty:** It is from the LATAM market.
- Ashish Maheshwari:** LATAM market year-on-year, CAGR.
- Sachin Shetty:** Sir, my question is, how is this process or the product condition? My question is product registration, conversion to the order book, how long it will take?
- Ashish Maheshwari:** After we do the product registration, after we receive the product registration, it takes us around 2 to 2.5 months to get the product manufactured, and then it takes around 3 months for the product to reach there in transit time in the ocean. So it takes around 5.5 to 6 months before the first sale is made after we receive the product registration.
- Moderator:** Thank you. Next question comes from the line of Chinmaya Garg from Dron Capital. Please go ahead.
- Chinmaya Garg:** I just wanted to understand when will this plant be functional? You said you will be starting CAPEX soon. When can we expect this plant to come on stream?
- Ashish Maheshwari:** March 2024.
- Chinmaya Garg:** March 2024. And the asset turn that you were talking about in a previous question, six, seven times, how much time in your opinion would that take to be achieved? I understand it's an aspirational, and that is an eventual target that the plant can achieve, but what is your vision there?
- Ashish Maheshwari:** There we see 24-25 is the first year of the plant, and 25-26 is where we see that happening, if not in the financial year, the last six months of FY26 and the first six months of FY27.
- Chinmaya Garg:** And I also want to understand the distribution in Latin American countries. So how would it work? Do you sell to, let's say, a distributor there? Do you sell to retail pharmacies there? What is the distribution in those countries?
- Ashish Maheshwari:** In Latin American countries, we are the distributors, and we give it to various wholesalers.
- Chinmaya Garg:** And how does the working capital, how long is the working capital cycle there in that case?

- Amol Mantri:** Latin American working capital cycle is about 230 days.
- Chinmaya Garg:** 230 days. And how long is it in Angola? I'm sorry. I don't have the numbers because the merger happened.
- Amol Mantri:** In Angola, it's about 150 to 160 days.
- Chinmaya Garg:** So as Latin American proportion of sales increases, the balance sheet, you require more and more working capital. So it will move towards 200 days, right?
- Ashish Maheshwari:** Yes.
- Amol Mantri:** Yes.
- Chinmaya Garg:** And that is factoring in your own production, right, and production from your own plant?
- Ashish Maheshwari:** Yes. Production from our own plant, the capacities that we are setting up. The sales as of today will take up one full shift of the production. And the way we are going in Latin America, in the next three years, we expect that we can run two shifts on our own production.
- Moderator:** Thank you. The next question comes from the line of Archana Gude from IDBI. Please go ahead.
- Archana Gude:** Thank you for follow-up opportunity. Sir, can you give us some more color on our consumer product segment, how it is doing? And what's the growth aspiration going forward in that segment?
- Ashish Maheshwari:** Consumer products division had taken off well in FY-21, but in FY22, it took sort of a hit because of the very high freight cost which went up by around 300% to 400% ocean freight cost. So it didn't do well in the last six months of the year because it was not very viable to ship it out at those prices. This is a high volume low margin product. But it's again picked up. Activity has picked up again from May this year, and going forward, we hope we will be growing well in this financial year. And after this financial year only, we can comment on how our growth pattern can be as freight rates have not fully stabilized as yet.
- Moderator:** Thank you. [Operator Instructions] The question comes from the line of Chirag Fialoke from Ratna Traya Capital. Please go ahead.
- Chirag Fialoke:** Just one follow-up question on the future margins. Once we have our manufacturing in place, could you broadly walk us through, you know, how would that impact, again, very broadly, what do you think that would have an impact in terms of gross margin and on EBITDA margin? Just if you can just walk us through that, that's my only question.

Ashish Maheshwari: So the manufacturing setup that we are doing now in the plant is what is called general oral solid dosages, which is tablets and capsules. What we are doing is a general block. We are not making a penicillin block, which is used for antibiotics, or we are not making the cephalosporin block. We are doing just general part of it, and the liquid injectable block will have only ampoules.

Again, we will not have antibiotics, and we will not have cephalosporins. Only these three dosage forms we are putting up and that too for general. The entire basket of products that we have, there are around eight dosage forms that we cater to. There are liquids, vials, dry powder for injections, suppositories, infusions, and there are ointments. So we are not setting up facilities for manufacturing of those. Those will still continue to be outsourced.

So, having said that, from what we are selling today, around 60% of our manufacturing will be done in-house. 40% to 45% will still be outsourced. On this 60% - 65%, we expect 8% to 10%, at least 8% to 10% increase in margins because of our own manufacturing which may translate to 4% to 5% on a total revenue basis.

Chirag Fialoke: And just to clarify, these are EBITDA margins.

Ashish Maheshwari: Yeah. We are talking of EBITDA margins.

Chirag Fialoke: And on a gross margin level, you believe that for this 60%, that will be in-house, probably, that impact is closer to 13%-14% for that 60%. Then again translated into overseas.

Ashish Maheshwari: Yes, 10% plus at least.

Moderator: Thank you. [Operator Instructions] The next question comes from the line of Harsh Peria, an individual investor. Please go ahead.

Harsh Peria: Sorry, if my questions are a bit basic, because I am new to the company. Can you talk a little bit about your cost structure for your marketing unit in Latin American markets?

Ashish Maheshwari: The cost structure for Latin America is quite lean compared to Angola. There, as I told you, we are the distributors. So we have a central warehouse, a large, very large central warehouse. We have two of them in Dominican Republic and one of them in Guatemala. And our staffing is around four expats in each country from India to manage everything right from sales to administration to deliveries. And then we had about 10 to 12 locals for the semi-skilled kind of work. So the cost structure is quite low, for the marketing and promotions that we do there. Because right now in Guatemala, we are doing some promotions. We have to do some promotions because we are establishing ourselves. So overall, Guatemala EBITDA looks a little lower right now because of those promotions, but it's not a very big number, which will, you know, it's a very lean kind of cost structure in each country, when each country is seen as a

geography. And right now, there are some expenses which are happening for the product registrations which are also being written off, which will stop as we mature as a company, and we have more and more production in our hands. At some point of time, the production cost will also go down. We are not capitalizing those costs. Those costs are all being written off.

Harsh Peria: And when you say about marketing of our drugs, are they marketed to doctors? Or is it some other distribution channel?

Ashish Maheshwari: No, it is not marketed to doctors. Doctors is what is called ethical promotion, which we plan to do, which we plan to start in the Dominican Republic in the next six months, next one year or so in Guatemala. The promotions are generally in the nature of some goods, some kind of freebies to distributors, some kind of gifts to consumers, some kind of flyers in retail chains stores, some kind of advertisements and billboards, something like that.

Harsh Peria: And what is your network of wholesalers? Like how many wholesalers does the company deal with in Latin and Angola?

Pranav Maheshwari: So right now in Latin America, we are working with around 80 to 85 wholesalers and distributors, and in Guatemala, we are working with around 16 wholesalers and distributors, and this also includes some smaller retailers as well.

Ashish Maheshwari: We were dealing with 1,000 wholesalers in Angola.

Harsh Peria: So in Angola, then you are completely kind of a B2C company, because you are directly dealing with the retailers.

Ashish Maheshwari: Yes. That's the difference in the business model between Angola and Latin America, and that's why the expenses in Latin America are high, because we have 17 wholesale depots all across the country in Angola.

Harsh Peria: And do you also have MRs in Angola which might market to doctors?

Ashish Maheshwari: No.

Harsh Peria: And are there any plans to have an MR network?

Ashish Maheshwari: Not in Angola. As I said, it will happen in Dominican Republic in the next one year. We are working towards that. In Guatemala, it will happen after we set up our EU GMP plant, because Guatemala, the doctors are very discretionary, and we plan to get into those markets. We still have a lot of head room for growth in the markets that we are in Guatemala. So we will cover all that and then after our new plant will get into ethical matter in Guatemala which is a 2.5 year process from now.

- Harsh Peria:** My next question is about your product range. How do you decide which products are to be sold in a given market? Do you decide it based on the market demand or what you guys have expected in terms of sourcing?
- Ashish Maheshwari:** Based on market demand.
- Harsh Peria:** So it's a customized product basket for each market.
- Ashish Maheshwari:** Generally, yes, around 80% of products remain the same across markets. It's only the 20% which vary a bit.
- Harsh Peria:** And I was looking at your website to try to understand if I can get a previous conference transcripts. Are there previous conference call transcripts available for the company?
- Ashish Maheshwari:** I will just get that checked with our Company Secretary and get back to you on an email.
- Harsh Peria:** My last question is, are there also other entities in the group which are not in the listed company?
- Ashish Maheshwari:** No. After the consolidation of Angola, there are no other entities which are part of Balaxi Group which are not in the listed entity. Everything is consolidated and no other listed entity.
- Moderator:** Thank you. [Operator Instructions] Next question comes from the line of Jitendra Upadhyay from Bonanza Portfolio. Please go ahead.
- Jitendra Upadhyay:** Sir, my first question, what factors have contributed to your strong performance during Q1 FY23? And second one, what would be incremental revenue from a new project?
- Ashish Maheshwari:** See the Q1 FY23 performance, as I have said in my opening remarks, there is strong demand from Latin American markets. The strong demand will continue because we have a lot of registration product registrations in the pipeline, and as we receive more and more product registrations, the market penetration will increase. Not only will we get additional revenue from the new products, but revenue from other corners will also increase as we get more wholesalers into our channel as our channel partners, because as the number of products grow, wholesalers get more confidence to buy the company's products. So this growth will continue over the next three years in LATAM.
- And from the project, this is a backward integration projects as I was mentioning, and one full shift of production we can do even with today's sales by the time the plant comes up and is fully functional. When we are able to do two shifts, we will be able to run both the shifts, will have enough demand ourselves. So this plant will give us revenues. Definitely, the revenue growth, but also it will give us more in terms of profitability and control over the quality of our

products and being EU GMP compliant, it will open us to approach other rest of world markets very easily.

Jitendra Upadhyay: One more question, sir. May I know your top 10 product contribution to overall top line?

Ashish Maheshwari: That is something that keeps changing from season to season. So we can't put a fixed number on that.

Jitendra Upadhyay: And sir, how many product registration done during your quarter and last year?

Ashish Maheshwari: Last financial year we received 82. There was some slowness due to COVID, but now it has picked up. In this first quarter itself, we have seen 42 product registrations.

Moderator: Thank you. Next question comes from the line of Harsh Peria, an individual investor. Please go ahead.

Harsh Peria: I would like to get a bit of more idea about your growth plans. So in your existing markets like Angola, what is the kind of growth rates that you guys are seeing?

Moderator: Ladies and gentlemen, the management line has been disconnected. Please be on hold while I quickly get them reconnected. Ladies and gentlemen, the management line is reconnected. Please go ahead, sir.

Ashish Maheshwari: We are working on Angola where we have with our entire basket of products been there. We are covering the entire country with 17 wholesale depots. So we will not see hyper growth there. We will go in line with the market at around high single digits, you can say 8% to 9% to 10% to 11%. In Latin America, there is a total big head room for growth, hyper growth in the next three to four years which we will witness at more than 40% to 42% per year year-on-year CAGR.

Harsh Peria: Another question of mine is about your EU GMP facility. So does it help us in any way to put up an EU GMP facility when we are not planning to sell in EU?

Ashish Maheshwari: It helps a lot because that will become the key differentiator between our product and our competitors' product, and we have witnessed in Dominican Republic, in Guatemala that EU GMP product is respected both by distributors, wholesalers retailers and even the customers which will be a big differentiator between us and the competition, and will give us longevity in the market. It will also help us in entering the ethical market in Guatemala and other Latin American countries because the doctors there are very happy prescribing the EU GMP product. So these are the two reasons why we are going for EU GMP which will help us very easily to enter into rest of world markets and the dossier filed by EU GMP Board of Registration in Latin American countries finds favor with the Ministry of Health authorities there, and we expect that after the EU GMP, our product registration cycle will go down.

Harsh Peria: And the products which we are currently sourcing from China, are these also coming from EU GMP facilities or non-EU GMP?

Ashish Maheshwari: No, from China, currently the products are all coming from WHO GMP only, not from EU GMP. China doesn't have many EU GMP facilities.

Harsh Peria: And your current sourcing from India, is it coming also from the non-EU GMP facilities?

Ashish Maheshwari: Just some very sensitive antibiotic products are coming from EU GMP facility. Rest all are coming from WHO GMP facilities. 98% are from WHO GMP facilities.

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

Ashish Maheshwari: Thank you one and all for the time, and I hope the company has been able to answer all the questions for satisfaction of all the queries. Thank you very much. I look forward to speaking to all of you again. Thank you.

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

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