May 29, 2023

To,
Listing Department,
National Stock Exchange of India Limited
Exchange Plaza, Plot No C-1, Block G, Bandra Kurla Complex,
Bandra (E), Mumbai – 400051

**NSE Symbol: BALAXI**

Dear Sir/Madam,

**Subject: Update on Company's first pharmaceutical formulation plant**

In compliance with Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015, we enclose herewith an update on the Company's first pharmaceutical formulation plant, being set up at Jadcherla, Hyderabad.

The aforesaid information is also being hosted on the Company's website at www.balaxipharma.in.

This is for your information and records.

Yours Faithfully,

For **Balaxi Pharmaceuticals Limited**

Udayan Shukla
Digitally signed by Udayan Shukla
Date: 2023.05.29 16:20:36 +05'30'

**Udayan Shukla**
*(Company Secretary and Compliance Officer)*
*Membership No.: F11744*

Encl: A/a

**Update on Company's First Pharmaceutical Formulation Plant**

The company had secured a total commitment of INR 49.35 cr in October 2022, by way of a Preferential Issue to investors, most of which was issued as Convertible Warrants. The purpose was to set up an EU GMP compliant facility for the manufacturing of Tablets, Capsules and Injectables.

Subsequent to the successful closure of the fund raising, the company pursued the project with its consultants, who submitted the detailed project report. It appears that there is an escalation in the project cost as originally communicated, to the tune of INR 8-10 cr.

Since this is the first major capex that your Company would incur and safeguarding the interests of the stakeholders is paramount, the Management decided to critically re-evaluate the ROI on the proposed project, especially with respect to the EU GMP certification. The EU GMP status was expected to not just accelerate your Company's entry into new markets but also open up the European market for it in the long run. Given that the Company has been sourcing from Portugal for several years now for its Angola market and has a sourcing partnership with one of the largest contract manufacturers (CDMOs) in Portugal, it decided to work on a detailed business plan with specific reference to Europe. This also involved a deeper partnership with them in terms of their existing markets, which would have helped Balaxi achieve optimum capacity utilisation from its proposed facility quicker. However, after a close evaluation of the pricing in the European market, it was concluded that the competitive intensity had intensified and margin in generic molecules was unattractive.

Separately, there have been some headwinds in the existing markets of Balaxi, such as currency depreciation in Angola and Dominican Republic in Q3FY23, delay in obtaining product registrations in Central America and elongated working capital cycles owing to competitive pressures. The unprecedented crash in freight rates, starting Q4FY23, while it is positive for the long term, has led to destocking of inventory by wholesalers (who have delayed buying) and this has led to a one-time margin erosion on higher cost inventory already on-ground. The current scenario seems to also impact the first half of FY 24. However, we are expecting the situation to improve in the second half of FY 24.

Against this backdrop, the Management perceived this as a high risk to its existing business growth requirements (which are not based on the manufacturing facility) in the event that it commenced construction and did not secure incremental capital commitments from warrant holders in time. Since the cash outflows were front loaded and internal accruals weren't supportive either, it was considered imprudent to commence the project, pending clarity on whether the externally funded equity portion of the capex would be infused to coincide the cash flow needs. So far, the Company has received a total capital of INR 19.02 cr as against total commitment of INR 48.26 cr from warrant holders and INR 1.10 cr from those who had subscribed to equity shares upfront. Only 2.06 lakh warrants have been converted out of 10.7 lakhs issued so far and the warrant holders may choose to exercise the rest of their warrants at any time on or before April 2024.

In light of all of the above, it has now been decided to set up the facility as a WHO GMP compliant and thereafter work towards obtaining PIC/S certification. Your Company has already engaged with technical consultants for the same and is given to understand that this will not only be more capital efficient but also less opex intensive, while continuing to help Balaxi achieve its goals in terms of market penetration. The final numbers are being worked out and the plan is to commence construction post this monsoon. The project is expected to be completed within 11 months thereafter.

The equity portion already infused by warrant holders and internal accruals should support the first few months of outflows and the Company would thereafter be banking on incremental infusion through warrant conversions for funding it's capex requirements. We are confident that these warrant holders who have reposed trust in us and belief in the value proposition that Balaxi offers, will support us in this journey in a timely manner.

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