KRChoksey | RESEARCH by DEVEN CHOKSEY

Blue Jet Healthcare Ltd.

IPO NOTE

27th October 2023

Blue Jet Healthcare Ltd.

Issue Opens On	Issue Closes On	Price Band (INR)	Issue Size (INR Mn)	Rating
October 25, 2023	October 27, 2023	329 - 346	7,990 – 8,403	SUBSCRIBE

Blue Jet Healthcare Ltd., founded in 1968 by Shri B.L. Arora, is a specialty pharmaceutical and healthcare ingredients and intermediate company, offering niche products, supplied to innovator and generic pharmaceutical companies as a Contract Development and Manufacturing Organization (CDMO) with specialization in contrast media intermediates and high intensity sweeteners. The company caters to 400 long term customers, across 39 countries, by engaging in multi-year contracts of up-to 5 years. The company offers three set of products including contrast media intermediates, high intensity sweeteners, pharma intermediates and Active Pharma Intermediates (APIs). The contrast media agents enable medical imaging to enhance visibility of body tissues under X-rays, computed tomography (CT) and magnetic resonance imaging (MRI) or ultrasound. The high intensity sweeteners includes development, manufacture, and marketing of saccharin and its salts.

OFFER STRUCTURE

Particulars	IPO Details
No. of shares under IPO (Mn)	24.3
Fresh issue (# shares) (Mn)	Nil
Offer for sale (# shares) (Mn)	24.3
Price band (INR)	329 – 346
Post issue MCAP (INR Mn)	57,070 – 60,019

Source: IPO Prospectus

Indicative Timetable	
Offer Closing Date	October 27, 2023
Finalization of Basis of Allotment with Stock Exchange	On or about 1st Nov' 23
Initiation of Refunds	On or about 1st Nov' 23
Credit of Equity Shares to Demat accounts	On or about 3rd Nov' 23
Commencement of Trading of Eq.shares on NSE	On or about 6th Nov' 23

Source: IPO Prospectus

Issue	# Shares	INR Mn	%
QIB	4,857,032	1,681	20%
NIB	3,642,774	1,260	15%
Retail	8,499,806	2,941	35%
Net Offer	24,285,160	8,403	100%

Source: IPO Prospectus

Objects of the Offer: The net proceeds will be utilized for the following purpose
Listing publicly

Shareholding Pattern	Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group	100.0%	86.0%
Others	0.0%	14.0%
Total	**100.0%**	**100.0%**

Source: IPO Prospectus

Particulars (In INR Mn)*	FY21	FY22	FY23
Revenue	4,989	6,835	7,210
EBITDA	1,884	2,493	2,191
EBITDA Margin	37.8%	36.5%	30.4%
PAT	1,384	1,816	1,600
PAT Margin	28.3%	26.6%	22.2%
Net Worth	3,398**	5,215	6,815
RONW	40.7%	34.8%	23.5%

*Source: IPO Prospectus, * Restated Statement, consolidated numbers, rest standalone basis.*

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Blue Jet Healthcare Ltd.

Company Overview

Blue Jet Healthcare Ltd., founded in 1968 by Shri B.L. Arora, is a specialty pharmaceutical and healthcare ingredients and intermediate company, offering niche products, supplied to innovator and generic pharmaceutical companies as a Contract Development and Manufacturing Organization (CDMO) with specialization in contrast media intermediates and high intensity sweeteners.

The company has built a long-term customer base of innovator and multi-national generic pharmaceutical companies, supported by multi-year contracts. The company supplies a critical starting intermediate and several advanced intermediates to three of the largest contrast media manufacturers in the world, including GE Healthcare AS, Guerbet Group, and Bracco Imaging S.p.A. The company also supplies high-intensity sweeteners to several multi-national companies, including Colgate Palmolive (India) Limited and Unilever.

The company operates three manufacturing facilities, which are located in Shahad (Unit I), Ambernath (Unit II), and Mahad (Unit III) in the state of Maharashtra, India with an annual installed capacity of 200.60 Kilo Liters (KL), 607.30 KL, and 213.00 KL, respectively as of Q1FY24. The Unit II facility is certified by the World Health Organization (WHO) for good manufacturing practices, and is registered with the USFDA. In addition, following inspection of its Unit II in September 2019 by USFDA, it has received the USFDA establishment inspection report (EIR) in November 2019. In order to meet rising customer demand, the company has strategically incurred capital expenditures to expand its manufacturing capacity. In FY21, the company acquired a "greenfield" manufacturing site on a leasehold basis in Ambernath (Unit IV). The company's manufacturing is driven by customer demands, which are contracted in advance. Given the nature of its medium- to long-term supply contracts with customers, the company is able to plan for capacity utilization and expansion, ahead of time.

The company offers three product types including contrast media intermediates (71% of revenue as of FY23), high intensity sweeteners (24%), and pharma intermediates and active pharma ingredients (APIs) (5%).

Contrast Media Intermediates

The company has been supplying the key starting intermediate and several advanced intermediates (19 commercialized products) as building blocks for iodinated (X-Ray/CT Contrast agents, 74% of the market) and gadolinium based contrast media (MRI Contrast agents, 24% of the market) manufactured by the four largest contrast media manufacturers in the world (such as GE Healthcare AS, Guerbet Group, Bracco Imaging S.p.A and Bayer AG), including to three of such manufacturers directly, which enables Blue Jet Healthcare to forge long-term customer relationships with them. Contrast media agents are injectables, which assist medical fraternity to distinguish or "contrast" selected areas of human bodies from adjacent tissue by enhancing their visibility in medical imaging exams. The company has long-term relationships ranging from 4 to 24 years with these manufacturers. The four largest contrast media manufacturers in the world manufacture different sets of contrast media molecules, and they continue to hold significant market shares for their respective molecules. As a result, the company is able to provide services to them for all the molecules thereby driving its growth.

High Intensity Sweeteners

The company develops, manufactures and markets 4 saccharin and its salt products as a high intensity sweetener, which is 300-500 times sweeter than sugar with a long shelf life. High-intensity sweeteners are widely used in beverages, confectionary products, oral care products (such as toothpaste and mouthwashes), pharmaceutical products and animal feed. The company offers the product to 300 customers in India, US, Europe, Asia and Latin America with a focus on marquee customers such as Colgate-Palmolive (India) Ltd., Unilever, Prinova US LLC, and MMAG Co. Ltd. and many other international and domestic manufacturers across all end product categories, including oral care products, soft drinks, cosmetics and pharmaceutical products. Further, the products comply with the major pharmacopoeias and food standards, including United States Pharmacopeia and the Food Chemicals Codex, European Pharmacopoeia, European food additive number E954, British Pharmacopoeia and Indian Pharmacopoeia. It has bagged accreditations from FAMI QS, FSSC22000, Kosher India, SMETA, FSSAI, and AuditOne, which enables the products to be sold to a wide variety of industries.

Pharma intermediates and API business

The company develops and manufactures select pharma intermediates (chemical compounds) that form the building blocks for APIs under CDMO model for innovator pharma companies for use in chronic therapeutic areas such as Cardio Vascular (CVS) disease, oncology and CNS. The company markets the intermediates and APIs in both regulated and emerging markets. As of Q1FY24, the company had over 40 customers in India, and 16 globally across Europe, North America, South America, and Asia, including Olon S.p.A., Hovione Farmaciência, S.A., Esperion Therapeutics Inc. and Bial – Portela & CA, S.A. The company has been expanding its pharma intermediate and API business by collaborating with innovator companies as their CDMO and providing them with pharma intermediates to manufacture APIs for investigational new drugs and NCEs in chronic therapeutic areas, such as CVS disease, oncology and CNS.

Revenue contribution	FY21	FY22	FY23	Q1FY24	CAGR FY21-FY23
Contrast Media Intermediates	72%	71%	71%	72%	20%
High intensity sweeteners	20%	23%	24%	22%	33%
Pharma Intermediates and APIs	8%	6%	5%	5%	-10%
Others	0%	0%	0%	0%	245%
Total Revenue	100%	100%	100%	100%	21%

Source: IPO Prospectus.

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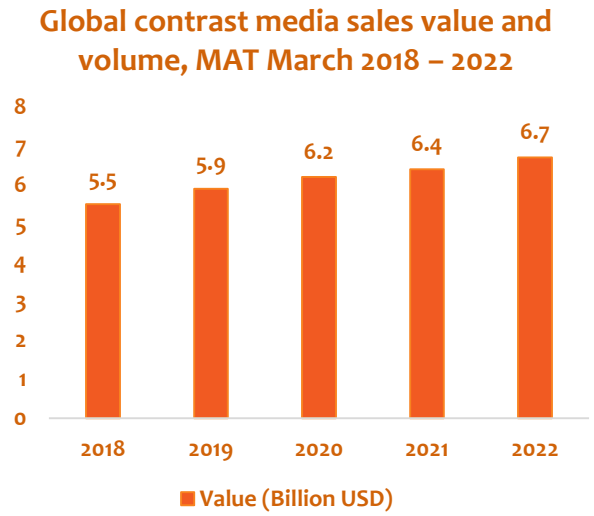
Industry Overview

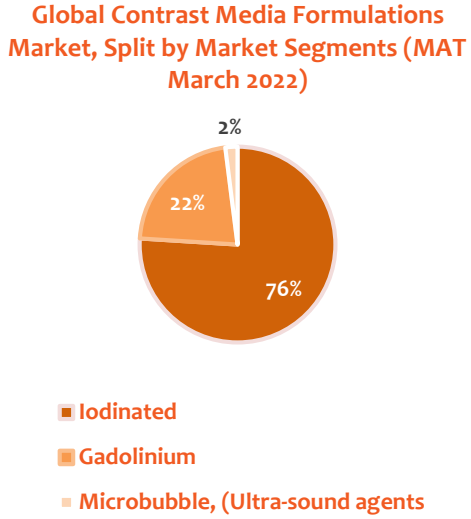
Contrast Media

Contrast media are specially designed chemicals used to improve the visibility of tissues and organs in diagnostic imaging. They are taken up by different body tissues temporarily, and because of their unique properties, they make images clearer, helping doctors diagnose diseases more effectively.

Contrast Media is categorized into three categories on the basis of the imaging modality :

1) **X-ray / Computed Tomography (CT) contrast agents:** Predominantly iodine-based contrast media agents.
2) **Magnetic Resonance Imaging (MRI) contrast agents:** Gadolinium based contrast media agents
3) **Ultrasound agents:** Stabilized microbubble-based contrast media agents.





Source: IPO Prospectus

Globally, Iodinated contrast agents formed the largest segment by value, accounting for nearly 76% of all the sales by MAT March'22.Iodine based contrast media are primarily used in X-ray based imaging and in CT as iodine has an atomic number that is higher compared to most tissues in the body, it produces more attenuation of X-rays and hence increases contrast of X-ray based images.

Gadolinium based agents formed the next largest segment accounting for approximately 22% of the total sales by value. Gadolinium-based contrast agents (GBCAs) have received approval for intravascular use in MRI over the last 20 years. These agents are administered through intravenous injection. Gadolinium is the preferred molecule for MRI contrast because it possesses the highest number of unpaired electrons, which results in brighter images on MRI scans.

The global contrast media formulations market has shown stable growth rate since MAT March 2018 to MAT Mar 2022. The market grew 4.8% CAGR by value during the period reaching size of $6.7 billion in MAT March 2022 from $5.5 billion in 2018. The growth of formulation sales is attributable to recovery in covid related restrictions ease and increase in elective surgeries across the specialties.

Growth Drivers of Contrast Media

The growth drivers for contrast media have multiple levers such as growing population and demographics. According to US estimates the global population aged 65 years and above is estimated to increase from 6.9% of total world population in 2000 to 10.4% by 2025.Conseuqently aging population is expected to increase the overall spending on healthcare, including increased spending on diagnostics. Also, growing prevalence of lifestyle diseases such as hypertension, smoking, irregular diet patterns, increasing prevalence of diabetes, physical inactivity, obesity etc. in the young population has led to emergence to healthcare issues. This in-turn is expected to increase the spending on diagnostics.

In addition to this, rising healthcare expenditure, focus on early diagnostics, increased convenience and increasing demand for preventive healthcare are also likely to drive the demand for the contrast media.

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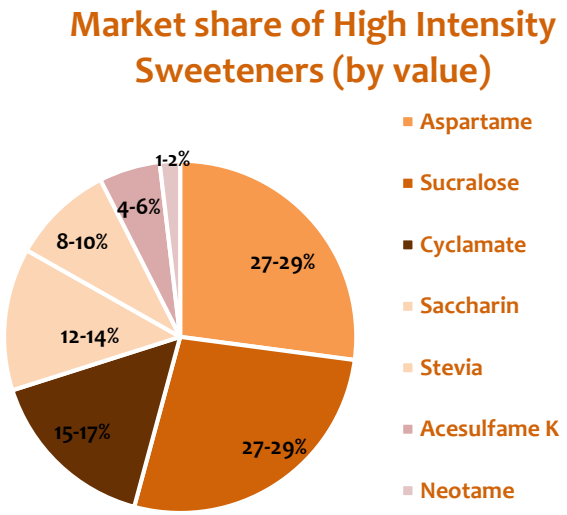
High-Intensity Sweetener Market

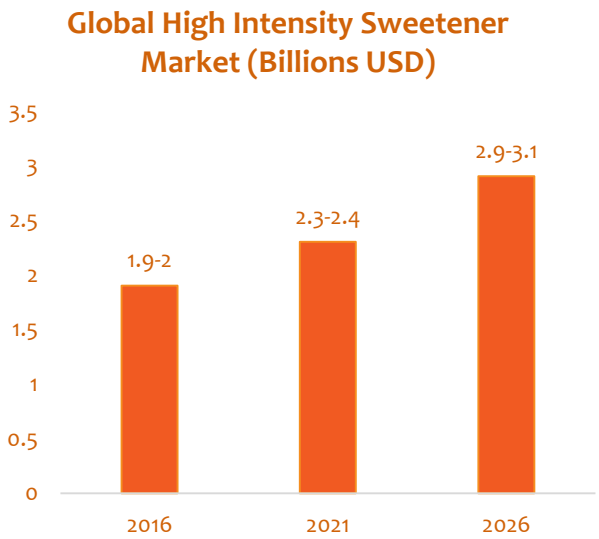
Saccharin is classified as a "high-intensity sweetener," a type of compound frequently employed to replace sugar in various products, including food, beverages, oral care items, and pharmaceuticals. These sweeteners are remarkable for being 300-500 times sweeter than sugar, yet they provide very few, if any, calories when incorporated into these products.

Saccharin is available in the commercial market in granular or powdered form as an artificial sweetener. It finds its primary application in tabletop sweeteners, oral care products like toothpaste and mouthwash, beverages (especially soft drinks), confectionery items such as mints, candies, and bakery products, pharmaceutical products, dietary supplements, and even animal feeds.

Saccharin has been a part of human consumption for over a century and stands as one of the most thoroughly studied food additives. Extensive research spanning the past three decades has consistently affirmed the safety of saccharin for human consumption. In the high-intensity sweeteners market, saccharin represents approximately 12-14% by value and 17-19% by volume.

Saccharin is poised to maintain its significant share in the high-intensity sweeteners market for several compelling reasons. Firstly, its consistent taste profile is a primary preference for food and beverage companies, especially those with established products containing saccharin. Secondly, saccharin boasts a well-established safety record, having been consumed safely for over a century. Thirdly, it offers cost-effectiveness and can be blended with other sweeteners to maintain product affordability. Lastly, saccharin's versatility is evident in its stability at high temperatures, making it ideal for bakery and confectionery products, and its compatibility with various cooking and baking processes, offering a long shelf life and suitability for packaged food items.





Source: IPO Prospectus

Growth Drivers of High-Intensity Sweetener Market

This segment is set to grow at a 4-5% CAGR from 2021 to 2026, driven by factors such as the rising incidence of diabetes and obesity, the need for low-calorie foods, changing consumer preferences for reduced fat content, increased R&D investments by product manufacturers, and the impact of urbanization and evolving lifestyles, which are boosting the consumption of ready-to-eat and processed foods.

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Industry Overview

Pharmaceutical Intermediates & APIs

Pharmaceutical intermediates serve as the fundamental components in the production of pharmaceutical products. In the pharmaceutical industry's value chain, these intermediates are transformed into active pharmaceutical ingredients (APIs), which, in turn, are used to create the final pharmaceutical formulations, including tablets, capsules, and injections, among others. The growth in the volume of pharmaceutical intermediates aligns directly with the demand for the related pharmaceutical products, demonstrating a positive correlation between the two.

Pharmaceutical intermediates are experiencing substantial growth driven by three pivotal factors. Firstly, there's a notable upsurge in the inclination of both innovative and generic pharmaceutical companies to outsource their manufacturing processes. Secondly, the industry is increasingly committed to diminishing reliance on China as a primary source for active pharmaceutical ingredients (APIs) and intermediates, with a strong emphasis on achieving self-sufficiency. Lastly, these growth drivers seamlessly align with the overarching expansion trends within the global pharmaceutical market.

Some of the trends that are likely to keep the Pharmaceuticals intermediate in focus are such as Several key trends are shaping the pharmaceutical industry. The first trend involves an increased inclination among both innovator and generic pharmaceutical companies to outsource manufacturing, driving the growth of contract development and manufacturing organizations (CDMOs). Secondly, there is a global effort to reduce dependence on China for the supply of active pharmaceutical ingredients (APIs) and intermediates. This move towards self-sufficiency is supported by government incentives, such as production-linked incentives and dedicated bulk drug parks in India. The fourth trend pertains to the overall growth in the global pharmaceutical market, driven by the launch of novel therapies, the expansion of existing treatments, and the rising demand for generic medicines. These trends position India as a prime destination for pharmaceutical intermediates and APIs due to its established quality, process chemistry expertise, educational infrastructure, and government support.

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INVESTMENT RATIONALE

Key player in Contrast Media industry: The company is a key player in contrast media. It has been manufacturing contrast media intermediates for two decades. The contrast media agents are key agents which are injected to assist medical practitioner to differentiate or contrast between human body from adjacent tissues thereby enhancing its visibility in medical imaging exam. The contrast media agent is critical in the diagnostic imaging to detect tumors, infections or blood clots, detect internal injuries, and internal bleeding and diseases such as cancer, heart diseases, lung nodules, and liver masses. It is also used in surgery, biopsies, and radiation therapies. The global contrast media formulation market is highly concentrated. The four largest contrast media manufacturers, namely GE Healthcare AS, Guerbet Group, Bracco Imaging S.p.A and Bayer AG, consistently contributed to more than 70% of the global moving annual turnover (MAT) from June 2013 to June 2023. The company is into contrast media intermediates for iodinated and gadolinium based contrast media intermediates which together form 98% of the contrast media formulations market as of Q1FY24. The customers of Blue Jet Healthcare (top 4 largest contrast media manufacturers) caters to nearly 100% of the iodinated and gadolinium markets, as of Q1FY24, and the company regularly supplies to manufacture those molecules. It indicates strong market positioning for Blue Jet Healthcare Ltd. as it is supplying to the key customers holding almost the entire market share of iodinated and gadolinium based contrast medias.

Strong and long term relationship with large and market leading customers: The company has established long standing strategic relationship with leading MNC pharma and healthcare companies, which in turn, enabled it to expand its product offering and geographic reach. For example, its relationships with GE Healthcare AS, Guerbet Group, Bracco Imaging S.p.A, and Cambrex Karlskoga AB, in the contrast media area ranged from four to 24 years; Colgate-Palmolive (India) Limited, Unilever, Prinova US LLC, and MMAG Co. Ltd. in the high-intensity sweetener area ranged from three to 14 years; and Olon S.p.A., Hovione Farmaciência, S.A., and Bial – Portela & CA, S.A. in the pharma intermediates, API and CDMO area. The company caters to three of the four largest industry leaders, including GE Healthcare AS, Guerbet Group, Bracco Imaging S.p.A, directly, in contrast media. According to the IQVIA Report, GE Healthcare AS, Guerbet Group, Bayer AG and Bracco Imaging S.p.A contributed to more than 70% of the global annual turnover on a MAT basis, from June 2013 to June 2023. The company has 136 domestic customers and 32 international ones as of Q1FY24. On an average it has catered to 200-300 customers over the last 3 years. Ten largest customers continue to hold over 80% revenue share for the company over the last three years. This indicates the consistency of the relationship it has with its market leading customers, which in turn, drive its growth and profitability.

Capacity additions to bring in economies of scale and growth: The company's manufacturing is driven by customer demands, which are contracted in advance. Given the nature of its medium- to long-term supply contracts with its customers, the company is able to plan for capacity utilization and expansion ahead of time. The company has been increasing its production capacity in line with agreed-upon volume forecasts by its customers. The company's production capacity increased rapidly, due to customer demand, from an aggregate installed capacity of 230.00 KL as of FY18 to 1,020.90 KL as of Q1FY24. In addition, the company plans to expand its production capacities in Unit II from 607.30 KL as of FY22 to 743 KL by FY25. The company also intends to expand its production capacity from 213.00 KL as of FY22 to 499 KL as of FY25 in Unit III. The company also acquired Unit IV, a greenfield manufacturing site in Ambernath, in FY21 for the production of pharma intermediates and APIs. Subject to obtaining approvals, the company expects this Unit IV facility will involve semi-automation and have an estimated installed capacity of 71.00 KL. Once the capacity expansion at Unit III is completed and Unit IV is operational, the company's total annual production capacity is expected to reach 1,513.6 KL by the end of FY25.

Backward integration, economies of scale and operational efficiencies to expand profitability: The company uses 3-Amino-1,2-Propanediol ("APD"), purified isophthalic acid, methanol, caustic soda lye and sulphuric acid for its contrast media intermediate business. Also, it uses phthalimide, caustic soda lye and sulphuric acid for our high-intensity sweetener business. The company currently sources most of its raw materials from India while imports some of its key starting materials ("KSM") from diversified sources, globally. The company aims to begin producing contrast media intermediate KSM in-house starting from FY24, thereby eliminating dependencies on imports. The company seeks to de-risk its operations by continuing to diversify its procurement base, reduce the amount of materials that the company imports and procure more materials from Indian suppliers. Nearly 54% of materials were purchased from overseas markets while 46% was sourced domestically as of Q1FY24. The company also aims to expand its margins through improved operational efficiency, semi-automation and economies of scale.

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Blue Jet Healthcare Ltd.

Key Strengths

Large manufacturer of contrast media intermediates in India

With over two decades of experience in manufacturing contrast media intermediates, the company is a large manufacturer of contrast media intermediates in India. The company manufactures contrast media intermediates and supply a critical starting intermediate and several advanced intermediates primarily to three of the largest contrast media manufacturers in the world, including GE Healthcare AS, Guerbet Group, and Bracco Imaging S.p.A, directly. The company has supplied over 75% of the value of exports of a selected contrast media intermediate (5-Amino-N,N'-bis (2,3-dihydroxypropyl) isophthalamide) from India over CY2020 to CY2022. (Source: IQVIA Report) According to the IQVIA Report, global contrast media formulation market had a market size of USD 5.9 billion in terms of moving annual turnover (MAT) for June 2023. The market is expected to grow at a CAGR of 6-8% between CY2023 and CY2025, with growth expected to be primarily led by volume. The company has been regularly supplying the key starting intermediate as the building block, and several functionally critical advanced intermediates, for manufacturing seven of these iodinated contrast media. In 2020, the company developed and commercialized another contrast media intermediate as the building block for all gadolinium-based contrast media, which has significantly increased its total addressable market. From the building blocks, the company has moved up the value chain by developing advanced intermediates to further cater to its customers.

Presence in niche categories with high barriers to entry: The company strategically focuses on complex chemistry categories in both the contrast media intermediate and high-intensity sweetener categories, specifically on products required by customers, and products selected by its internal product portfolio team. The barriers to entry for becoming a supplier to any of the large contrast media manufacturers are high, as (i) the strict internal standards of contrast media manufacturers for feature and impurity profile, due to the parenteral use of contrast media formulations; and (ii) the relationships between the contrast media manufacturers and their existing suppliers, which are typically supported by long-term supply contracts. (Source: IQVIA Report) Similarly, stringent supplier qualification criteria need to be met to become a supplier of high-intensity sweeteners to companies in the end-use industries. Specifically, consistency in quality, taste and impurity profile are required for end use in beverages, confectionery products and oral care products (Source: IQVIA Report). The companies' track record in these parameters has provided the company with customer stickiness, with long-term customer relationships ranging from four to 24 years in the contrast media intermediate category, and ranging from three to 14 years in the high-intensity sweetener category, and has enabled it to maintain profitability.

Long-standing relationships and multi-year contracts with multi-national customers: As a CDMO, the company collaborates and not compete with its customers. With its research and development capabilities, process optimization, technical know-how, knowledge of the regulatory environment, track record of timely fulfilment of customer orders and ability to ramp up manufacturing capacities in close coordination with its key customers, the company has been able to establish long-standing customer relationships in each of the product categories where it operates. The company has garnered a significant share of the addressable market as a result of its long-standing relationships with its customers. The company enters into annual and multi-year supply contracts ranging from one to four years, thus providing strong visibility and predictability of order book revenue, as well as cash-flow visibility. More than 70% of its total sales in each of the FYs 2021, 2022 and 2023 and Q1FY24 were backed by contracted sales volumes, through both annual and multi-year contracts.

Manufacturing facilities with regulatory accreditations: The company currently operates three manufacturing facilities, which are located in Shahad (Unit I), Ambernath (Unit II) and Mahad (Unit III) in the state of Maharashtra, India, with an annual installed capacity of 200.60 KL, 607.30 KL and 213.00 KL, respectively, as of Q1FY24. The layouts and equipment configuration of its manufacturing facilities help it ensure batch-to-batch consistency. Many of the critical steps during the manufacturing process, such as hydrogenation, are semi-automated, which facilitates consistent quality of its products. The company's business is driven by medium- to long-term supply contracts with agreed-upon volume forecasts by its customers. Accordingly, the company is required to maintain adequate production capacity to meet the volume demands of its customers. Its capital expenditure cycles have been planned on the basis of such supply contracts and volume forecasts, which provide it with better predictability regarding its product offtake before the company starts investing in any increases in production capacity, allowing it to optimize its capacity utilization and asset turnover ratio. As the offtake volume of its customers continued to increase, its production capacity increased rapidly from an aggregate installed capacity of 230 KL as of March 31, 2018 to 1,020.90 KL as of Q1FY24.

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Future Growth Strategies

Continue to forward integrate into more advanced intermediates for Contrast Media: The company offers contrast media intermediates to serve its customers. The company has forged strong relationships and built equity with its customers. The company enjoys a competitive advantage in the global contrast media market, which is built on its (i) established customer relationships with the top contrast media manufacturers, (ii) deep understanding of its customers' requirements, (iii) chemistry and process development capabilities, and (iv) proven track record of forward integration. The contrast media intermediate customers, which are some of the largest contrast media manufacturers, prefer to enter into long-term supply contracts with intermediate players that have established track records and proven technological expertise in meeting strict standards of impurity and features profiles (Source: IQVIA Report). By further improving its technical know-how and chemistry capabilities in close synergy with its customers, the company intends to capture a larger wallet share with its existing customers going forward.

Leverage its long-standing customer relationships to continue entering adjacencies in the pharma intermediate and API category: The company has been expanding its pharma intermediate and API operations as a CDMO to several pharmaceutical companies in the past two decades. Globally, there is an increasing trend to outsource manufacturing by pharmaceutical companies. Given its process research, analytical research and chemistry capabilities, continuous focus on product quality and long-standing relationships with innovator companies, the company has a competitive edge to continue being a reliable CDMO. The CDMO model allows it to benefit from the accessibility to innovations of new molecules, and helps it to mitigate its research cost and concentrate on efficient product development on a large scale. It also offers the company an advantageous position to continue to offer such products after they go off-patent in concurrence with our customers. Through such participation in their NCE programs as a CDMO, and through other contractual agreements, the company seeks to further expand its product offerings in the respective therapeutic areas.

Build additional production capacity to keep in step with the envisaged increase in customer demand: The capacity expansion is largely driven by customers' demand. Based on the customer interest and purchase orders, the company foresees an increase in demand in the contrast intermediates and API activity. The company then plans to expand its production capacities in Unit II, from 607.30 KL as of Q1FY24 to 743 KL by FY25. The company also plans to expand its production capacity from 213.00 KL as of Q1FY24 to 499 KL as of FY25 in Unit III. The company also acquired a greenfield manufacturing site (Unit IV) on a leasehold basis in Ambernath in 2021 to build several multi-purpose blocks dedicated to its pharma intermediate and API business, which allowed the company to increase its manufacturing capacity and scale its business. Subject to obtaining approvals and construction progress, the company expects this Unit IV facility to have an estimated installed capacity of 71 KL. Subject to obtaining approvals and construction progress, the company expects the production capacity expansion at Unit III to be completed during FY24 and Unit IV to be operational during FY25. Once the capacity expansion at Unit III is completed and Unit IV is operational, the company's total annual production capacity is expected to reach 1,513.6 KL by the end of FY25.

Focus on operational efficiency and mitigation of supply chain risks: The company aims to expand its margins through improved operational efficiency, semi-automation and economies of scale. To further enhance its operational efficiency, the company has adopted a series of initiatives, such as recovery and recycling of solvents, optimization of batch sizes, and utilization of its new downstream equipment for filtration, drying, and yield improvement. The company will continue to seek opportunities in import substitution, and implement dual sourcing initiatives to reduce dependence on single sources of raw material supplies. The company will also implement a backward integration strategy for certain key contrast media intermediates with a plan to manufacture a key starting material in-house, thereby improving cost efficiency, reducing dependence on imports and mitigating the risk of foreign exchange fluctuation.

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Key Risks

Concentration risk

The business heavily relies on a handful of key customers, particularly in regulated markets like Europe and the United States. The loss of these customers, their financial instability, or reduced demand for the products could seriously impact the business, financial health, and cash flow. There are limited key customers with long-term contracts, and a significant portion of revenue comes from them. For example, in recent years, the top ten customers accounted for around 82% of the total revenue. Moreover, the contrast media intermediates business is a crucial revenue source, with three of the largest contrast media manufacturers in the world being the primary clients. Over a decade, these top four manufacturers consistently contributed to over 70% of the global annual turnover. This dependence on a select group of customers may limit negotiation flexibility and influence profit margins. Any financial issues or changes in business prospects for these customers could result in reduced demand for the products and a substantial decrease in revenue.

Geographic Market Dependence

A significant portion of revenue comes from the regulated markets of Europe and the United States. For instance, in recent years, Europe contributed around 76% to 79.73% of total revenue, while the United States accounted for about 2.37% to 4.18%. The business relies on the continued growth of these markets, and any decline in market growth, increased acceptance of competitors' products, or an inability to adapt to market changes and customer preferences could adversely affect the business, financial health, and cash flow.

Timely Commercialization and Product Development

The ability to successfully and promptly bring new products to market is pivotal for maintaining business health and future prospects. However, the commercialization process is time-consuming, costly, and laden with significant business risks. Competitors may be concurrently developing similar products, creating unexpected direct or indirect competition. This unforeseen competition can disrupt product launch timing, adversely affecting financial condition, cash flow, and operational results. Furthermore, products in development may not perform as anticipated, face regulatory approval delays, or fail to secure timely approvals. Success in production and marketing is not guaranteed. Even in the event of successful product development, patent litigation or intellectual property disputes may arise, and market acceptance may be delayed or not materialize. Robust resources are channeled into research and development efforts, but there is no assurance of timely expansion, staff retention, or replacement availability.

Production Capacity Expansion Impact:

Inability to expand production capacity effectively could harm the company's operations and finances. Currently, the company operates three manufacturing facilities in Maharashtra, India, with a combined annual production capacity of 1,020.90 KL. They acquired a greenfield manufacturing site (Unit IV) in Ambernath, Maharashtra, in the Financial Year 2021, with plans to construct multiple multi-purpose blocks. There is also ongoing expansion of production capacity at Unit III, expected to complete by the Financial Year 2024. Upon successful expansion, the total annual production capacity across all units is projected to reach 1,513.6 KL, aligning with the company's growth strategy and market demand. So, any delay in production capacity of these companies can lead to adverse impact on the financials of the company.

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Blue Jet Healthcare Ltd.

Outlook and Valuation

Blue Jet Healthcare Ltd. benefits from a coveted position it holds in the contrast media intermediates segment, as it manufactures and supplies large share of the contrast media intermediates from India, primarily to three of the largest contrast media manufacturers in the world, including GE Healthcare AS, Guerbet Group, and Bracco Imaging S.p.A, directly. The company strategically focuses on complex chemistry categories in both the contrast media intermediate and high-intensity sweetener categories, which implies high barriers to entry for competition. As a result, the company is able to have customer stickiness, with long-term customer relationships ranging from four to 24 years in the contrast media intermediate category, and from three to 14 years in the high-intensity sweetener category. As the offtake volume of its customers continued to increase, its production capacity increased rapidly from an aggregate installed capacity of 230 KL as of March 31, 2018 to 1,020.90 KL as of Q1FY24. The company is underway with capacity expansion and expects the production capacity expansion at Unit III to be completed during FY24 and Unit IV to be operational during FY25. Once the capacity expansion at Unit III is completed and Unit IV is operational, the company's total annual production capacity is expected to reach 1,513.6 KL by the end of FY25. We believe the coveted position in niche segments such as contrast media and sweeteners and planned capacity additions coupled with backward integration plans should help it grow its profitability further in the foreseeable future considerably. **As a result, we recommend that Blue Jet Healthcare Ltd. IPO be rated 'SUBSCRIBE'.**

Peer Comparison

Comparison with listed industry peers (FY23)

Parameters (FY2)	Blue Jet Healthcare	Divis Lab	Dr Reddy's Laboratory
Face value (INR)	2	2	5
Closing price as on 25th October 2022 (INR)	NA	3468	5,512
Revenue from Operations (INR Mn)	721	77,488	2,45,879
EPS (INR)	9.22	55.65	270.9
P/E	37.5x	63.3x	19.5x
Operating Margin (%)	30.4%	31.00%	26.40%
Net Profit Margin (%)	22.2%	23.50%	18.30%
ROCE%	22.5%	19.40%	26.07%
ROE%	23.5%	14.90%	21.60%

Source: IPO Prospectus, KRChoksey Research

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Blue Jet Healthcare Ltd.

Financials:

Income Statement (INR Mn)	FY21	FY22	FY23
Total Revenue from Operations	4,989	6,835	7,210
YoY Growth (%)	NA	37.0%	5.5%
Other income	89	194	240
EBITDA*	1,884	2,493	2,191
EBITDA Margin (%)	37.8%	36.5%	30.4%
Depreciation	20	221	251
EBIT	1,864	2,271	1,940
Interest expense	53	33	14
PBT	1,900	2,432	2,166
Exceptional items	0	0	0
Tax	489	616	566
PAT	1,384	1,816	1,600
Diluted EPS (INR)	8	10	9

Source: IPO Prospectus, KRChoksey Research. Note: EBITDA does not include other income

Balance Sheet (INR Mn)	FY21	FY22	FY23
Equity Share Capital	99	347	347
Other equity	3,299	4,868	6,468
Equity attributable to equity holders of holding Company	3,398	5,215	6,815
Current borrowings	229	0	0
Current lease liabilities	0	40	19
Trade payables	595	565	538
Other financial liabilities	284	270	356
Provisions	4	5	5
Other current liabilities	518	864	821
Total current liabilities	**1,631**	**1,745**	**1,739**
Borrowings	287	0	0
Lease liabilities	0	133	15
Other financial liabilities	0	0	0
Provisions	33	38	41
Deferred tax liabilities	14	3	10
Other non-current liabilities	0	0	0
Total non-current liabilities	**334**	**173**	**67**
Total Equity & Liabilities	**5,363**	**7,133**	**8,621**
Assets			
Cash and Cash Equivalents	705	877	656
Inventories	1,177	1,050	1,257
Trade Receivables	1,440	2,274	2,394
Other Financial Assets	36	68	185
Other current assets	543	1,214	2,159
Total Current Assets	**3,900**	**5,483**	**6,650**
Property, Plant and Equipment	1,188	1,185	1,282
Capital work-in-progress	26	34	305
Right of use assets	201	380	228
Intangible assets	0	0	0
Investments	0	0	0
Other financial assets	13	30	34
Deferred Tax Assets	0	0	0
Income tax assets	0	0	0
Other Non-current Assets	35	21	121
Total Non-Currentl Assets	**1,462**	**1,650**	**1,970**
Total Assets	**5,363**	**7,134**	**8,621**

Source: IPO Prospectus, KRChoksey Research

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Blue Jet Healthcare Ltd.

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