

15 March 2024

India | Equity Research | Initiating Coverage

BlueJet Healthcare

Speciality Chemicals

Sweet success: Healthier growth via new products in contrast media and PI/APIs

We initiate coverage on Blue Jet Healthcare (BlueJet) with **BUY** rating and target price of INR 450. BlueJet has a head start in contrast media, and is now cementing its position with new contracts that may allow the company to ascend its value chain in iodinated contrast media and NCE in gadolinium contrast media. This should manifest in FY23-26E with contrast media revenue CAGR of 18%. In parallel, PI/API revenue may jump 7x with ramp-up in supplies to Esperion, where BlueJet is expanding capacities, and the product has seen some key achievements. BlueJet has a couple of more products in the pipeline which could pose an upside risk to revenue. While Chinese competition dented revenue for sweeteners in FY24, the company is working to accelerate growth in the segment.

Initiate coverage with BUY; target price of INR 450

We initiate coverage on BlueJet with **BUY** rating and target price of INR 450, valuing the company at 26x FY26E P/E multiple. This implies 18.1x FY26E EV/EBITDA and 6.4x P/BV at FY26E. We expect BlueJet's revenue/EBITDA/net profit to grow at a healthy CAGR of 20.4%/24%/23.4%, respectively. This is significant acceleration against the backdrop of stable revenues it had recorded over the past three years in the absence of new product launches. With 3-5 product additions in the offing, we not only see revenue growth swelling, but also strength in business resilience with product diversity.

Head start in contrast media, potentially widening the lead

Contrast media is a niche within pharmaceuticals – deals in imaging for better diagnosis and caters to the rising demand for deep investigation. Contrast media, despite having largely off-patented products, is dominated by four innovators (>75% market share) – GE Healthcare, Bracco, Bayer and Guerbet. This is due to the factors such as coupling of product with imaging equipment, a closed ecosystem of diagnostics, championing reactions and optimising sourcing and recovery of iodine. BlueJet has relationships with innovators, and is among the largest suppliers of key contrast media intermediates (ABA-HCL) to GE Healthcare (>75% share in supplies from India). BlueJet will shortly kick-off supplies, on a large scale, to Guerbet for iodinated ABA-HCL, and intermediate for NCE in gadolinium contrast media – this provides growth visibility for the next couple of years, thereby cementing BlueJet's position in contrast media.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	7,210	7,246	9,871	12,530
EBITDA	2,191	2,488	3,320	4,196
EBITDA Margin (%)	30.4	34.3	33.6	33.5
Net Profit	1,600	1,810	2,379	3,008
EPS (INR)	9.2	10.4	13.7	17.3
EPS % Chg YoY	(11.9)	13.1	31.5	26.4
P/E (x)	37.3	33.0	25.1	19.8
EV/EBITDA (x)	27.7	24.6	18.5	14.6
RoCE (%)	23.8	21.6	23.2	24.9
RoE (%)	41.7	33.9	31.5	32.0

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Market Data

Market Cap (INR)	60bn
Market Cap (USD)	720mn
Bloomberg Code	BLUEJET IN Equity
Reuters Code	BLUJ.BO
52-week Range (INR)	433 /319
Free Float (%)	12.0
ADTV-3M (mn) (USD)	1.8

Price Performance (%)	3m	6m	12m
Absolute	3.0	0.0	0.0
Relative to Sensex	(0.6)	0.0	0.0

PI/API to benefit from intermediate for bempedoic acid

While pharma intermediates (PI)/ active pharmaceuticals ingredients (APIs) segment's performance has been rather run of the mill over the past two decades, pitted against contrast media's evolution, BlueJet's molecule pipeline can help promptly scale up revenues exponentially in this space in the next two years.

The company's pipeline beholds –

- 1) Intermediate for bempedoic acid to Esperion. Esperion has recently secured expansion of the label with removal of certain clauses for application in the US market. It has also successfully amended its dispute with Daiichi on milestone payments. Esperion is expecting approval for increased labelling in the US by Mar'24, and in Europe by Jun'24. If Esperion receives these approvals, it can significantly grow bempedoic acid market over the next couple of years. BlueJet is expanding capacity for intermediate for bempedoic acid from 36tpa to 144tpa to cater to the growing demand for Esperion.
- 2) BlueJet has also developed molecules that find application in oncology for a drug marketed by Novartis and two molecules for Parkinson's disease with promising prospects.

Sweeteners: New opportunities to battle Chinese competition

Sweetener business is largely saccharine sales for BlueJet, wherein the company enjoys a strong position in India and globally. Saccharine volumes have grown at a CAGR of 20% over FY20-23; however, sweeteners segment has been severely impacted with the rise in Chinese competition in FY24. The company was able to protect its revenue in pharma-grade and FMCG requirements, but has lost volumes in spot business. BlueJet is hopeful of driving back volumes, as aggression from Chinese producers recede. BlueJet also stated that it is working on another sweetener, which should help diversify its offering within high intensity sweeteners and help drive growth in future. Clarity on new sweetener variant from BlueJet is yet to emerge.

Reasonable valuation provides margin of safety

BlueJet is trading at a PE valuation of 19.8x FY26E EPS, which is at a discount to India agro-chemical and pharmaceutical contract manufacturing companies. The valuation understandably finds premise in: 1) Significantly lower growth in preceding three years given the paucity of new launches; 2) rising competitive intensity in contrast media intermediate segment, particularly from established/credible players such as Divi's, which has a strong execution track record; 3) volatility in margins due to fluctuation in key raw material prices, and 4) two incidents in its plant in the past year, raising questions on safety parameters.

That said, BlueJet envisages significant acceleration in revenue FY25 onwards, as commercial supplies for new products ramp up. It is making efforts to improve safety standards at plants, thereby minimising incidents.

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About BlueJet Healthcare

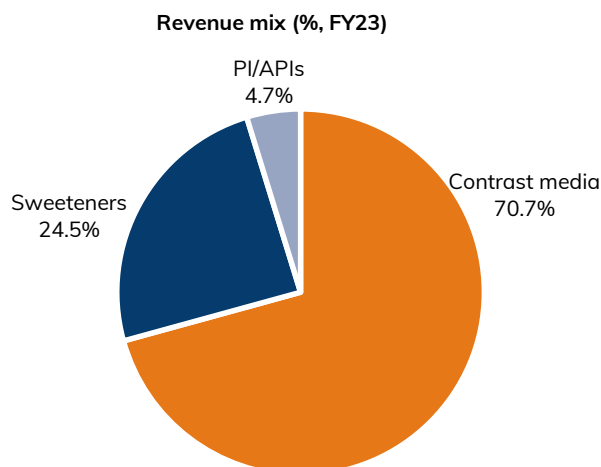
BlueJet is a pharmaceutical and healthcare ingredient and intermediate company that offers products targeted towards innovator and multi-national pharmaceutical companies. Since incorporation in 1968, it has established a CDMO (long-term contractual) business model with specialised chemistry capabilities in contrast media intermediates and high-intensity sweeteners, on the back of early investments in R&D and manufacturing infrastructure. It manufactures a range of products, including the key starting and advanced intermediates, which allows the company to control the production process for consistent quality and cost effectiveness.

Background: The company was established as Jet Chemicals in Shahad (Unit-1) by Mr. BL Arora, starting with production of saccharine in 1970. It entered into contrast media segment with building block (5-NIPA) in 2000, before stepping into the PI/API space in 2002. In 2003, it commenced operations in Ambernath facility (Unit-2) under Blue Circle Organics. The company commissioned a semi-automated manufacturing block for contract media in 2017. Later, it acquired Mahad facility (Unit-3) in 2020, and another site in Ambernath (Unit-4) in 2021. Ahead of its IPO in 2022, the company merged Jet Chemicals and Blue Circle Organics to create BlueJet Healthcare.

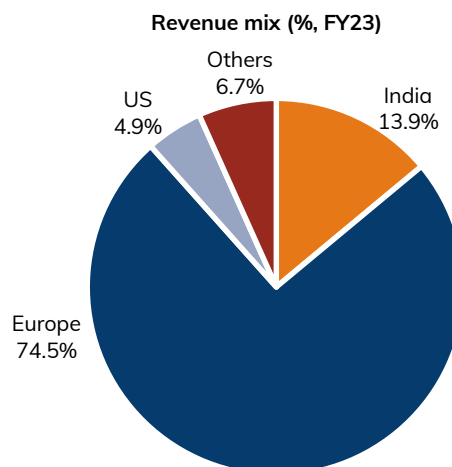
In FY23, BlueJet invoiced a total of 400 customers (including 52 international customers) in 39 countries. It has built a strong customer base in large pharmaceutical companies supported by committed multi-year contracts – up to five years.

BlueJet segregates its revenue into buckets: **1) Contrast media intermediates** (contrast media), **2) high-intensity sweeteners** (sweeteners) and **3) PI/APIs**.

- 1. Contrast media:** Contrast media are agents used in medical imaging to enhance the visibility of body tissues under X-rays, CT-Scan, MRI or ultrasound. BlueJet supplies a critical building block and several advanced intermediates primarily to three of the largest contrast media manufacturers including GE Healthcare, Guerbet, and Bracco, directly. It has had long-standing relationships – ranging four to 24 years – with these manufacturers. In H1FY24, the company commercialised its contrast media intermediate portfolio comprising 19 products.
- 2. Sweeteners:** BlueJet is involved in the manufacture of saccharin and its salts, which is backward integrated with the aim to ensure zero by-products and cost-effective production processes. The product has high customer stickiness due to 1) consistency of taste, which is a key factor for its customers, including FMCG companies and oral care companies. Further, other essential factors are to maintain their product quality, consistency, taste and brand equity; and 2) given stringent regulations on the use of ingredients in food and beverages by regulatory agencies, customers prefer long-term stability in supply-chain operations. BlueJet supplied sweeteners to >300 customers and is among the select suppliers for several MNCs such as Colgate Palmolive, Unilever, Prinova, and others.
- 3. PI/APIs:** BlueJet focuses on collaborating with large pharmaceutical companies (innovators/generic), supplying pharma intermediates that serve as building blocks for APIs in chronic therapeutic areas. The company engages with CDMO customers early in drug development process, which provides it with the opportunity to continue expanding its relationship with these customers as drug development progresses through the clinical phase and into commercial manufacturing. BlueJet has been a CDMO for certain products over the past two decades. In H1FY24, it supplied intermediates to 40 customers in India and 16 customers in exports, including Olon, Hovione Farmaciência, Esperion Therapeutics and Bial – Portela & CA among others.

Exhibit 1: Contrast media dominates revenue

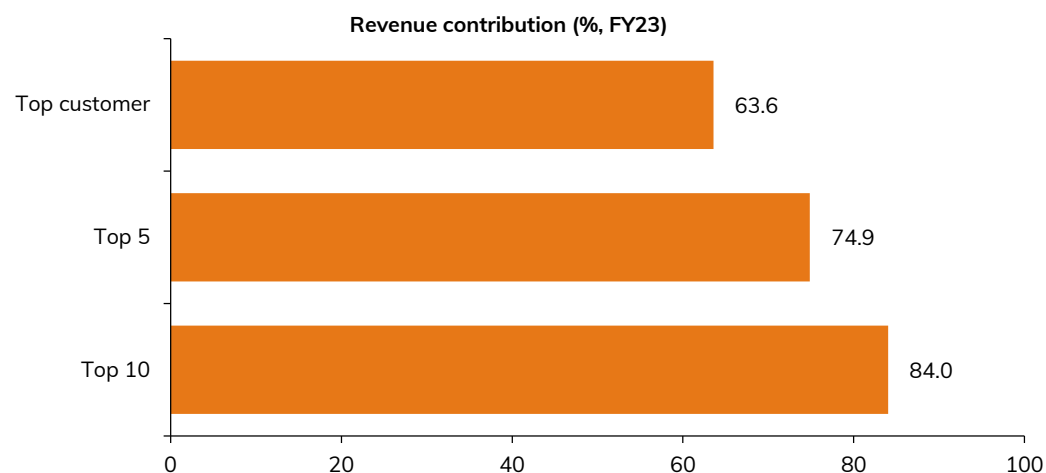
Source: Company data, I-Sec research

Exhibit 2: Europe is the most critical geography

Source: Company data, I-Sec research

The company has significant dependence on its largest customer, GE Healthcare, which contributed 63.6% of total revenue in FY23. The largest product supplied is ABA HCL (intermediate for iodinated contrast media API), which was 59.4% of revenue.

We believe the concentration risk is likely to reduce significantly as BlueJet starts ramping up sales from new products to be supplied to Guerbet, and Esperion. In new products, BlueJet may move up the contrast media intermediate value chain, and increase contribution of PI/APIs.

Exhibit 3: New contracts may help diversify, thereby diluting concentration risk

Source: Company data, I-Sec research

Manufacturing facilities

BlueJet has four manufacturing sites –

- **Unit-1** is located at Shahad, Maharashtra with total capacity of 201klpa (kilo litre pa), and the site is saturated.
- **Unit-2** is located at Ambernath, Maharashtra, which is its most critical site, and has received US-FDA EIR in Nov'19. It has a production capacity of 607klpa, and is in the process of expanding to 743klpa with an investment of INR 1bn. This may help ramp up new products for Guerbet and Esperion.
- **Unit-3** is located at Mahad, Maharashtra with existing capacity of 213klpa. BlueJet plans to add a dedicated plant for production of APD, a key raw material for contrast media intermediate, and MPP (multi-purpose plant) for new products

along with utilities. The intended capex is INR 2.25bn. The capex could be delayed by a couple of quarters due to the recent accident at a pilot plant.

- **Unit-4** is located at Ambernath, Maharashtra where it plans for initial capacity of 71klpa with investment of INR 1.5bn.
- The company is also incurring capex of INR 450mn on solar installation.

Exhibit 4: Detail of capex and capacities

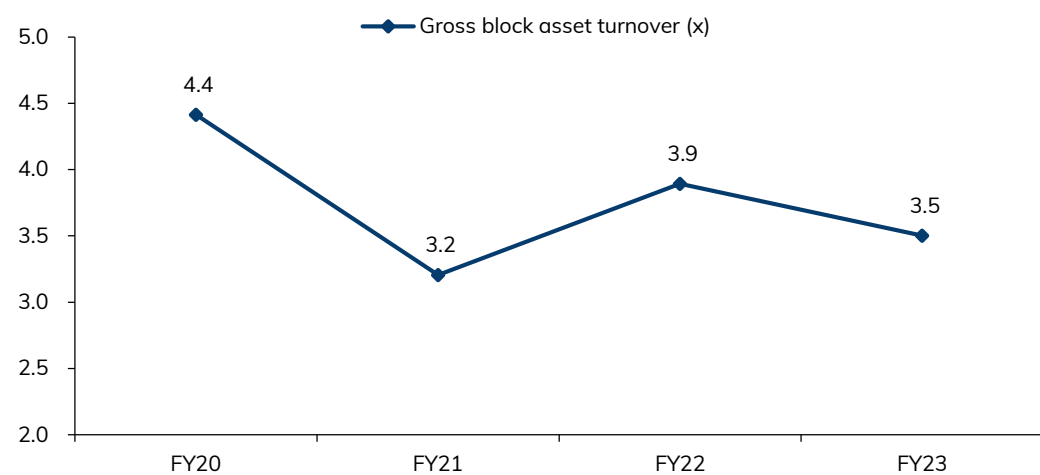
Plant	Description	Capacities (FY23, klpa)	Capacities (FY25E, klpa)	Capex (INR mn)
Unit I	Contrast media	201	201	
Shahad, Maharashtra	Sweeteners			
	PI/APIs			
Unit II	Contrast media	607	743	1,000
Ambarnath, Maharashtra	Sweeteners			
	PI/APIs			
Unit III	Contrast media	213	499	2,250
Mahad, Maharashtra	Sweeteners			
	PI/APIs			
Unit IV	Contrast media		71	1,500
Ambarnath, Maharashtra	Sweeteners			
	PI/APIs			
Others				450
Total		1,021	1,514	5,200

Source: Company data, I-Sec research

Notably, BlueJet's production capacity has grown from 230klpa in FY18 to 1,021klpa in FY23. It plans to expand installed capacity to 1,514klpa by FY25 with total investment of INR 5.2bn.

The company has achieved gross block asset turnover of 3-4x over the past four years, but we expect asset turnover to drop for incremental capex of INR 5.2bn, likely to commence in FY25E, due to the commissioning of two greenfield plants at Unit-3 & 4. We see asset turnover on incremental capex at 2.5x.

Exhibit 5: Gross block asset turnover to dip to 2.5x due to greenfield projects in FY25E



Source: Company data, I-Sec research

Contrast media intermediate – new products to drive growth

Strong position in contrast media and leveraging relationship with large players

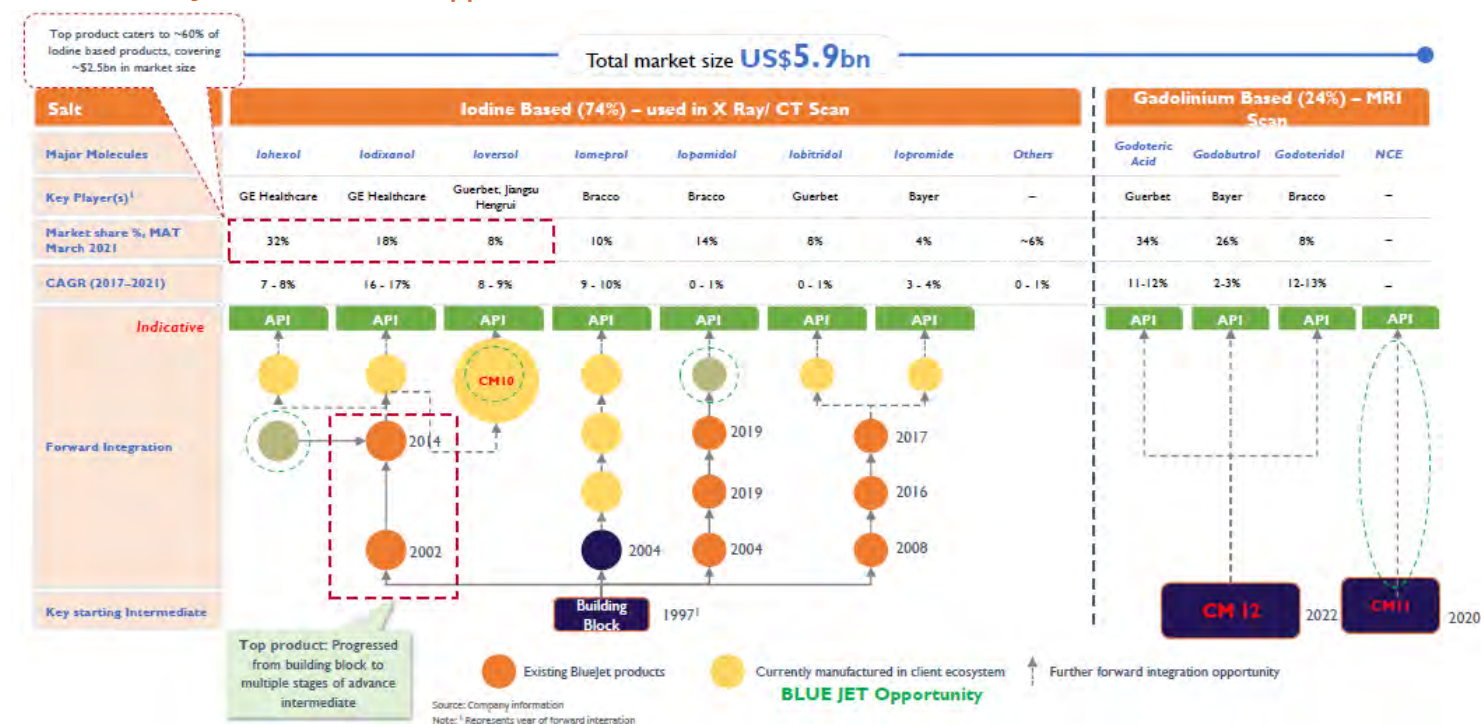
BlueJet has 19 commercialised products in contrast media, of which 17 products find application in iodinated contrast media, while it has two products for gadolinium contrast media.

1. Iodinated-based contrast media

Iodinated contrast media is a large market, capturing 76% of contrast media, which implies USD 4.4bn market size for formulation. BlueJet commercialised its key building block, 5-NIPA, in 2000, and has over the years moved up the value chain eyeing to reach n-1.

We understand the success in 5-NIPA was on two counts – **1)** BlueJet's strong know-how in isophthalic acid (base raw material for legacy product – saccharine); and **2)** 5-NIPA is a batch nitration reaction where achieving consistency, and purity requires significant capabilities. BlueJet was able to achieve consistent batch nitration on isophthalic acid. This provided the company with an early break-through into a very close market of contrast media, and 5-NIPA being used across the key eight iodinated contrast media was a big advantage to expand relationships with innovators.

Exhibit 6: BlueJet's evolution and opportunities in contrast media business



Source: Company data, I-Sec research

Below are the steps involved in the production of the largest iodinated contrast media – 'Iohexol'

Step-1 (n-5): Isophthalic acid is reacted with the nitrating mixture (sulphuric acid + nitric acid) to get 5-Nitroisophthalic acid crude (5-NIPA), which is then purified.

Step-2 (n-4): 5-NIPA is esterified with methanol in presence of sulphuric acid as a catalyst to get 5-Nitroisophthalic acid dimethyl ester (NIPA DME).

Step-3 (n-3): NIPA DME and 3-Amino-1,2-propanediol (APD) is reacted in the presence of methanol to get the condensed product. This is hydrogenated in presence

of the catalyst to get hydrogenated mass. Crude product is isolated as hydrochloride to get 5-Amino N,N'-Bis (2,3-dihydroxypropyl) isophthalamide HCL pure (ABA HCL).

Step-4 (n-2): ABA HCL is reacted with Iodine monochloride, along with sodium metabisulfite and sodium hydroxide to get 5-Amino N,N'-bis (2,3-dihydroxypropyl) 2,4,6-Triidoisophthalamide.

Step-5 (n-1): 5-Amino N,N'-bis (2,3-dihydroxypropyl) 2,4,6-Triidoisophthalamide is acetylated with acetic anhydride and PTS acid as catalyst to get 5-Acetylamino N,N'-bis (2,3-dihydroxypropyl) 2,4,6-Triidoisophthalamide.

Step-6 (API): 5-Acetylamino N,N'-bis (2,3-dihydroxypropyl) 2,4,6-Triidoisophthalamide is reacted with 3-Chloro1,2-propanediol in presence of methanol to get Iohexol crude. Iohexol crude is reacted with 2-ethoxy ethanol in presence of methanol to get Iohexol pure.

Exhibit 7: BlueJet has commercial products across iodinated contrast media

Molecules	Iohexol	Iodixanol	Ioversol	Iobitridol	Iomeprol	Iopamidol	Iopromide	Others
Market share %, (FY22)	~32%	~17%	~11%	~4%	~9%	~15%	~8%	~4%
CAGR (2018-2022)	4-6%	10-12%	8-10%	3-5%	6-8%	0-1%	3-5%	0-1%
Blue Jet products (Advanced intermediates)	<ul style="list-style-type: none"> 5-Amino-N,N'-bis(2,3-dihydroxypropyl) isophthalamide (ABA-HCL) 5-Amino-N,N'-bis(2,3-dihydroxypropyl)-2,4,6-Triidoisophthalamide 	<ul style="list-style-type: none"> 5-Amino-N,N'-bis(2,3-dihydroxypropyl) isophthalamide (ABA-HCL) 	<ul style="list-style-type: none"> 5-Nitroisophthalic Acid Dimethyl Ester (NIPA-DME) 5-Amino-N,N'-bis(2,3-dihydroxypropyl)-2,4,6-Triidoisophthalamide 	<ul style="list-style-type: none"> 5 Nitro N-Hydroxymethylisophthalamide acid 	<ul style="list-style-type: none"> 5-Hydroxyisophthalic Acid (HIPA) 	<ul style="list-style-type: none"> 5-Amino isophthalic Acid 2-Amino-1,3-propanediol 5-Amino-2,4,6-triidoisophthaoyl dichloride (ATIPA Dichloride) (S)-(-)-2-Acetoxypionyl chloride 5-Amino-N,N'-bis(1,3-dihydroxypropyl) isophthalamide (1,3-ABA) 	<ul style="list-style-type: none"> 5-Nitroisophthalic acid monomethyl ester (NIPA-MME) 	<ul style="list-style-type: none"> 5-Nitro-N-Methylisophthalamide Acid (Half Amide) 3-Aminobenzoic Acid
Building block	5-Nitro Isophthalic Acid							

Source: Company data, I-Sec research

BlueJet's largest product is ABA HCL, which it largely supplies to GE Healthcare, and forms a lion's share of ~75% in India exports. We understand other supplier to GE Healthcare is Deccan Fine Chemicals (large Hyderabad based custom manufacturing company). GE Healthcare is the largest contrast media player with ~27% market share, and likely has an even larger market share in iodinated contrast media. GE Healthcare uses ABA HCL in both of its iodinated-based products – Iohexol and Iodixanol.

2. Gadolinium based contrast media

BlueJet is now expanding its presence in gadolinium contrast media where it has two products – 1,4,7,10-Tetraazacyclododecane (Cyclen) and Pentanedioic 2-Bromo,1,5-Dibutylester (BGB).

Gadolinium contrast media has total seven key molecules with the top-four players. Gadolinium contrast media is 24% of the total contrast media market with a total formulation revenue of USD 1.4bn p.a. Cyclen is a basic building block for gadolinium contrast media.

BlueJet plans to achieve growth in gadolinium contrast media intermediate, and it expects to move up the value chain as it has in iodinated contrast media. It has also succeeded in signing a contract to supply key intermediate for NCE in gadolinium contrast media showing promising prospects.

Exhibit 8: BlueJet sees large opportunity in gadolinium contrast media

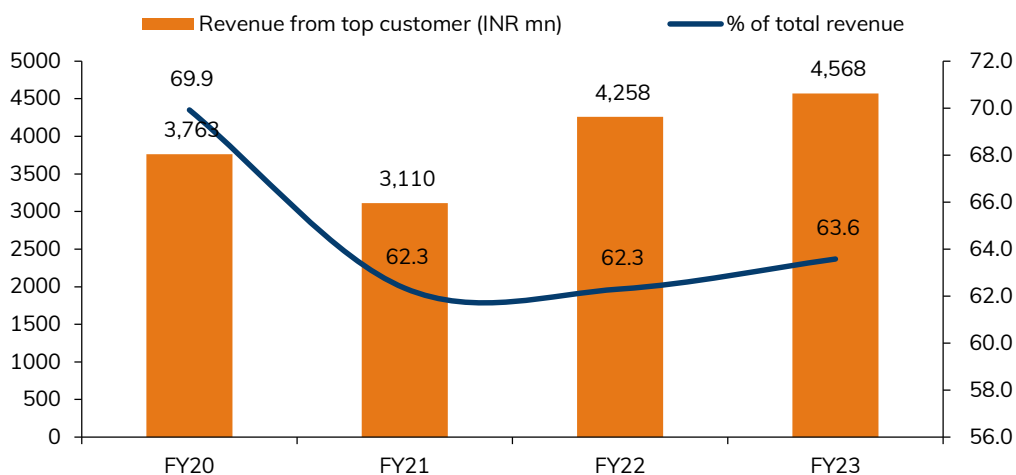
Molecules	<i>Gadoteric Acid</i>	<i>Gadobutrol</i>	<i>Gadoxetic Acid</i>	<i>Gadoteridol</i>	<i>Godobenit Acid</i>	<i>Others</i>
Market share %, (FY22)	~38%	~26%	~10%	~8%	~9%	~9%
CAGR (2018–2022)	10–11%	1–2%	11–12%	8–10%	<0%	<0%
Advanced Intermediates						
Building block	<i>1,4,7,10-Tetraazacyclododecane (Cyclen)</i>					

Source: Company data, I-Sec research

GE Healthcare relationship, bedrock for BlueJet's revenue growth

BlueJet has significantly higher dependency on its top customer (GE Healthcare), which contributed 63.6% of revenue in FY23. The higher dependency is due to consolidated market of contrast media, and GE Healthcare has a dominant position. However, GE Healthcare's contribution in BlueJet's revenue has declined in the past three years from levels of 70%, and it is likely to drop sharply in the future too, as BlueJet ramps up new products in contrast media and other segments.

GE Healthcare's largest purchased product from BlueJet is ABA HCL, which is n-3 for GE's iodinated contrast media. BlueJet has ~75% market share in ABA HCL supplied from India, which it anticipates to continue based on its long-term contract. Therefore, BlueJet's revenue from ABA HCL is dependent on volume sales of iodinated contrast media from GE Healthcare.

Exhibit 9: GE Healthcare contributed 63.6% of revenue for BlueJet in FY23


Source: Company data, I-Sec research

GE Healthcare currently produces >110mn doses globally p.a. of contrast media, and it has invested USD 385mn in the past one decade to expand its capacities. In Nov'22, GE Healthcare has announced ([link](#)) investment of USD 80mn to expand its capacity by 30% at its API site in Lindesnes, Norway. This step reinforces GE Healthcare's broader commitment to address the growing future demand for contrast media, which it expects to double in the next 10 years. Along with the recently opened production line at GE Healthcare's Cork, Ireland, fill and finish facility, GE Healthcare aims to enable the production of 30mn more patient doses p.a. by CY25.

GE Healthcare has also signed a multi-year agreement with SQM, a Chile-based mining company, to secure increasing supply of iodine, the key ingredient in iodinated contrast media.

Contrast media intermediate has limited competition from India, with key producers being BlueJet, Divi's, Deccan Fine Chemicals, Arvee Labs, Anant Pharmaceuticals, and Jodas Expoin. Considering contrast media products have limited buyers, we do not expect a significant increase in competitive intensity. Nonetheless, Divi's has been guiding for aggressive expansion in contrast media space, and already supplies certain materials to Bayer.

Captive APD production to strengthen its position in ABA HCL

BlueJet's largest raw material is 3-Amino-1,2-propanediol (APD) which is required to produce ABA HCL. One kilogram of ABA requires 580gms of APD. More than 50% of BlueJet's CoGS is purchase of APD, which it sources from China (two vendors) and Norway (one vendor).

The company plans for captive production of APD in FY25 and intends to put up a facility at its Mahad unit with capex of INR 700-800mn, which should give it capacity of 4ktpa. This should more than meet the captive requirement of BlueJet. However, the Norway supply agreement is long term, and will be replaced gradually, while the immediate replacement is Chinese suppliers. This should make BlueJet's supplies free (negligible exposure) of Chinese exposure directly and indirectly.

This also makes BlueJet's supply chain more resilient and reliable. The company expects backward integration into APD to cement its position compared to peers. BlueJet also manages supply chain for GE Healthcare, which together should make BlueJet strongly integrated with GE Healthcare's ecosystem, making it difficult to replace.

While backward integration should have boosted margins, the recent significant drop in APD prices implies benefits on margins may be small immediately. BlueJet's agreement with GE Healthcare allows 50% movement in APD prices as pass-through, therefore, rising APD prices make backward integration more lucrative.

Chemistry: Synthesis of 3-Amino 1,2-Propoanediol involves hydrolysis of epichlorohydrin (ECH) in presence of sulphuric acid, it gives 3-Chloro 1,2-Propanediol which further undergoes ammoniation to give 3-Amino 1,2-Propanediol.

Guerbet contracts to drive significant contrast media revenue from FY25E

Guerbet is among top 4 players in contrast media with market share estimated at 11%. It has two products each in iodinated contrast media (Ioversol and Iobitridol), and gadolinium contrast media (Gadoteric acid and Gadoteridol). Recently, Guerbet expanded its relationship with BlueJet with contracts to supply one product each in iodinated and gadolinium based contrast media.

Product-1: BlueJet has agreed to supply 5-Amino N,N' bis(2,3 dihydroxypropyl 2,4,6 Triiodoisophthalamide which is iodinated ABA HCL. This will find application in Guerbet largest iodinated contrast media – Ioversol. We understand the product is shift of production from Europe to India. BlueJet will be carrying iodination for the first time, which pushes the company up in the supply chain of iodinated contrast media. This will significantly add value to BlueJet –

1. The price of intermediate products rises exponentially, as it moves up the value chain. The price of 5-NIPA is estimated at INR 300/kg, and it jumps to INR 1,200/kg for ABA HCL and iodinated ABA HCL will be priced at INR 4,800/kg. This means selling prices of iodinated ABA HCL product is 4x of ABA HCL and 16x of 5-NIPA.
2. The critical chemistry in contrast media lies in iodination, and recovery of iodine. Iodine is an expensive basic commodity with price ranging from INR 5,000-6,000/kg. Further, developing relationship with iodine supplier is critical as pharma-grade iodine production is controlled by a few suppliers globally.
3. Iodine is least reactive halogen, and charging iodine for chemical reaction require higher quantities of input than standard requirement (10-15% more). Therefore, iodine charged is always more than required, while excess quantities flow to effluent post completion of reaction. Considering iodine a scarce natural resource and expensive commodity, the recovery of iodine (from effluent) is most critical for economical production of contrast media ingredient. We believe closely working with market leader that have know-how could help improve efficiency for BlueJet.

Divi's in its Q3FY21 earnings call ([link](#)) stated: *The advantage once you go into the large-scale league is that Iodine can be purchased at the right price, Iodine can be totally recycled and can be efficiently used; because, the contrast media, majority of the costs is Iodine. So, in a small-scale manufacturer or a medium-scale manufacturer, it is difficult to recover Iodine from the organic to the inorganic stage. We were able to do that and achieve in engineering to commercially recover all of our Iodine that is going into the waste streams, so that our costs will be minimal.*

4. BlueJet plans to produce more intermediates from by-products of iodination, thereby, expecting to convert effluent into revenue generating products. This should help it achieve cost efficiency.

BlueJet samples are validated by Guerbet, and it has supplied large quantities of iodinated ABA HCL in Q4FY24, and once approved, the company expects to start commercial supplies H2FY25 onwards. This should significantly add to the existing contrast media revenue for BlueJet.

Product-2: BlueJet has started supplying advance intermediate (Pentanedioic 2-Bromo,1,5-Dibutylester, BGB) to Guerbet's NCE in gadolinium contrast media. Guerbet's NCE product is 'Gadopiclenol' sold under the brand name 'Elucirem'. It is a contrast agent used with MRI to detect and visualise lesions with abnormal vascularity in the central nervous system and in the body. Gadopiclenol, initially invented by Guerbet with subsequent contribution of Bracco IP; both companies plan to market this product independently.

Upon regulatory approval, Guerbet will manufacture Gadopiclenol active ingredient and finished drug product in the vial presentation for Bracco Imaging for up to seven years. Following a technology transfer, both companies will have the ability to manufacture the product. The marketing started in CY23, initially in the US and the EU, with other geographies to follow ([link](#)).

Gadopiclenol was approved for medical use in the US in Sep'22 and in EU in Dec'23. The higher relaxivity allows for a lower dose of gadopiclenol, reducing the total amount of gadolinium administered to the patient while preserving imaging quality.

Gadopichlenol was approved by the FDA with a recommended dose of 0.05 mmol/kg for adults and paediatric patients aged 2 years and older. This is half the dose of standard macrocyclic gadolinium contrast media, which has a recommended dose of 0.1 mmol/kg.

We estimate BlueJet to significantly benefit as revenues from these two products ramp up over the next two years, and drive faster growth for contrast media segment. Apart from these, BlueJet is also looking to supply 1,4,7,10-Tetraazacyclododecane (Cyclen), which is a basic building block for legacy gadolinium contrast media.

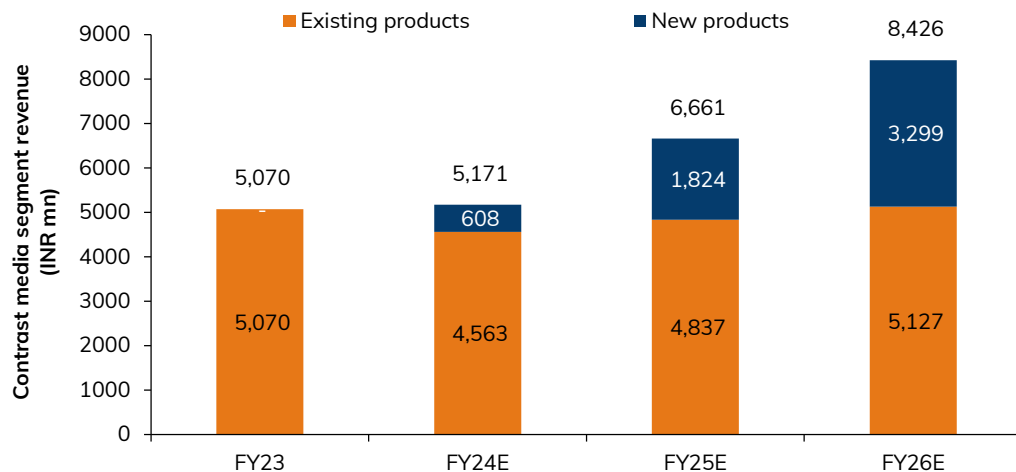
FY23-26E contrast media intermediate segment revenue to grow at CAGR of 18.5%

Contrast media intermediate segment revenue growth for FY24E is likely to be muted, and impacted by lower APD prices where 50% of the benefit is transferred to the customer. Further, new products' supplies are slower due to pending validation, and end-product demand. We expect contrast media segment revenue to see a sharp ramp-up over the next two years as new products gain traction, while existing revenue grows steadily. Our assumption includes APD prices being stable for FY25E-26E.

New products contribution is estimated to increase to INR 3.3bn in FY26E, contributing 39.2% of contrast media revenue. Large products in new category will be iodinated ABA HCL, followed by intermediate for gadopichlenol.

Overall, we estimate contrast media intermediate segment revenue to grow at a CAGR of 18.5% to INR 8.4bn over FY23-26E. The segment may still be dominant for BlueJet with 67.2% contribution of total revenue in FY26E.

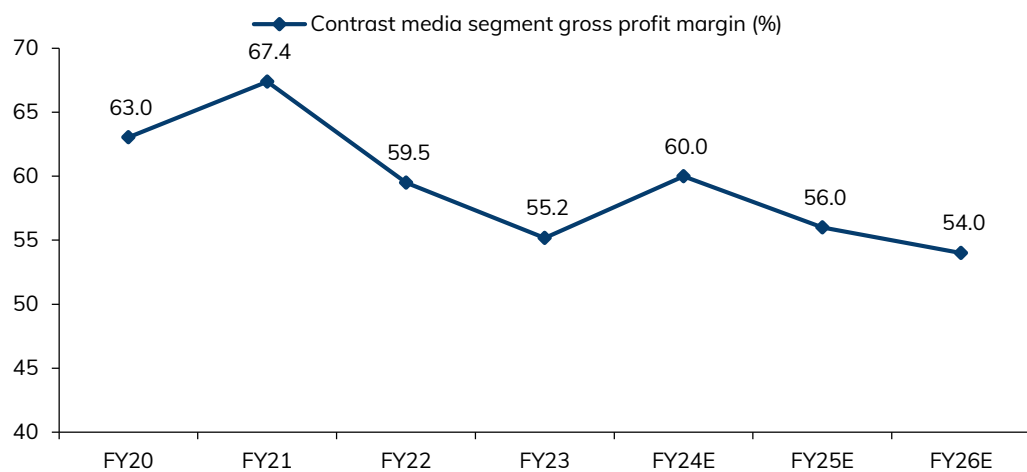
Exhibit 10: Contrast media segment revenue to grow at CAGR of 18.5% over FY23-26E aided by growth in new products



Source: Company data, I-Sec research

Contrast media segment gross profit margins in FY22 and FY23 were impacted by sharp rise in prices for APD where only 50% of inflation was passed through, while the remaining 50% was eaten into margins for BlueJet. The gross profit margin for FY24E is likely to normalise as APD prices have corrected.

We expect contrast media intermediate segment gross profit margin to decline with rise in contribution from new products, which have a lower margin profile. In iodinated ABA HCL, entire iodine price volatility is pass through for BlueJet (unlike only 50% for ABA HCL), and higher realisations make margins optically lower (unit margin may be significantly higher). We expect new products gross profit margin to be ~45% (vs 60% for existing portfolio).

Exhibit 11: New products are gross profit margin dilutive; unit margins are higher

Source: Company data, I-Sec research

PI/APIs - benefit from ramp-up of a few large molecules

Base business is moderate

BlueJet's PI/APIs segment has been operational for >20 years when India pharmaceuticals industry had exponential growth, while BlueJet had limited success. Current contribution is only 4.7% in FY23 with absolute revenue of INR 340mn. There are 20 molecules in the portfolio, of which 14 are pharmaceutical intermediates and 6 are APIs. It has eight molecules under CDMO model (contract manufacturing with long-term contracts).

PI are chemical compounds that are the building blocks for APIs, which are chemical ingredients imparting the therapeutic value and effect to medicine. APIs are chemical compounds to be bound with several binding excipients and stabilisers to form formulations, which will, after sufficient research and testing, be used in the human body for therapeutic effect.

BlueJet has been expanding its PI/API business by collaborating with innovator companies as their CDMO and providing them with PI to manufacture APIs for investigational new drugs and NCEs in chronic therapeutic areas, such as CVS disease, oncology and CNS.

Exhibit 12: BlueJet molecules in PI/API segment

Molecule	End API	Therapeutic
Pharmaceutical intermediates		
Methyl Anthranilate	Ambroxol and perfumes	Anti-mucolytic
2-Carbomethoxy Benzene Sulphonamide (CBS)	Flutriafol	Fungicides
5-Cyanophthalide	Escitalopram	Anti-depressant
Mica Ester (M-70)	Cefexime	Antibiotic
Para Amino Benzoic Acid (PABA)	Benzocaine	Anaesthetics
4-Acetamidobenzoic Acid (PACBA)	Inosine pranobex	Antiviral
4-Sulfobenzoic acid potassium salt (PSBA)*	Probenecid	Uricosurics
4-(acetylamino) benzoic Acid- 1-dimethylamino)-2-propanol*	Inosine pranobex	Antiviral
4-(Aminomethyl) Benzoic Acid*	Chidamide	Oncology
4-Fluro-1,2-Phenylenediamine*	Chidamide	Oncology
3,5-Dinitrobenzotrifluoride*	Nilotinib	Oncology
1,4-Butane Sultone*	Pharma excipient (also used for remdesivir)	Antiviral
Vanillic Acid*	Opicapone, etamivan, brovanexine	Anti-Parkinson
TosMIC*	Bempedoic acid	Lipid lowering
APIs		
Docusate Sodium Suspension		Laxative
Calcium Docusate		Laxative
INDOL-3-ACETIC ACID	NCE molecule	CNF
Vanilline Acetate	Etamivan	Anti-Parkinson
Trans-3(3-Pridyl)-Acrylic Acid	Chidamide	Oncology
Methyl Iodide	Flucanazole	Anti inflammatory

Source: Company data, I-Sec research; Note: * are products sold under CDMO or contracts

BlueJet's supplies to Esperion has promising opportunity

Esperion was founded in 2008, and has discovered, developed, and commercialised innovative medicines to help improve outcomes for patients with or at risk to cardiovascular and cardiometabolic diseases. Esperion has two marketed products that have been approved in the US and Europe – Nexletol and Nexlizet.

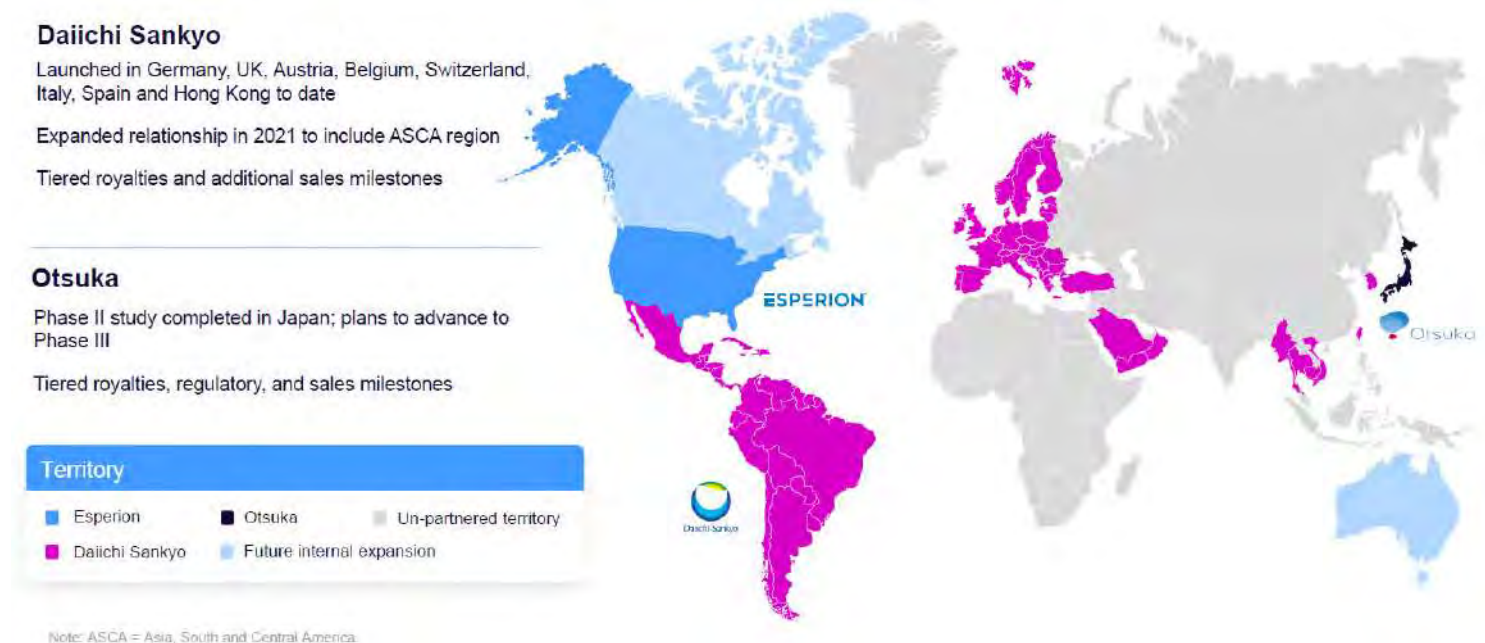
Nexletol (bempedoic acid) is indicated as an adjunct to diet and statin therapy for the treatment of primary hyperlipidemia with heterozygous familial hypercholesterolemia (HeFH) or atherosclerotic cardiovascular disease, who require additional lowering of LDL-C.

1. High low-density lipoprotein cholesterol (LDL-C) raises risk of developing cardiovascular disease, or experiencing a cardiovascular event – heart attack or stroke. 18mn people in the US need additional support to manage their cholesterol, of which 9.6mn do not take medication, primarily due to tolerability concerns about statins; and 8.7mn take statins, but do not meet the goal to lower LDL-C.
2. Statin is the most common treatment for high LDL-C for two decades. However, statins have high intolerability due to side effects experienced by some people when taking statin to lower cholesterol. This is also referred to as statin-associated muscle symptoms (SAMS) and statin intolerance. Globally, at least one-third of patients stop taking statins within one year of starting.

Nexlizet is a prescription medicine that contains two cholesterol-lowering medicines – bempedoic acid and ezetimibe (generic medication).

Esperion has a marketing and manufacturing tie-up with Daiichi Sankyo Europe and Otsuka for marketing of bempedoic acid.

Exhibit 13: Esperion has partnered to market bempedoic acid across major regions



Source: Company data, I-Sec research

Esperion had two key milestone events in the past couple of months –

1. In Dec'23, Esperion announced that USFDA has approved an updated LDL-C lowering indication for Nexletol and Nexlizet to include the treatment of primary hyperlipidaemia as a qualifier for existing approved populations. Additionally, the maximally tolerated qualifier for statin use has been removed, and the prior limitation of use stating 'the effect of Nexletol and Nexlizet on cardiovascular morbidity and mortality has not been determined' has also been removed.
2. In Jan'19, Esperion and Daiichi had announced that they have entered into a licensing agreement with Daiichi, having exclusive rights to commercialise bempedoic acid and the bempedoic acid/ezetimibe combination pill in the European Economic Area and Switzerland. Daiichi has agreed for certain milestone payment up to USD 300mn based on trial results for the drug. In Mar'23, Daiichi suggested that phase-3 CLEAR trial of bempedoic acid was not convincing enough to trigger a milestone payment.

This payment dispute follows data from CLEAR released in Mar'23 showed that Nexletol reduced the risk of challenging major adverse cardiovascular events (MACE),

the study's primary endpoint, by 13%. Esperion's drug also reduced heart attack risk by 23% and coronary revascularisation by 19%.

Milestone payment was based on Nexletol results – if Nexletol can induce a relative risk reduction of >15%, but <20% Esperion was entitled for USD 200mn. If it reaches or exceeds 20%, the payment jumps to USD 300mn.

Daiichi suggested that endpoint results showed only 13% reduction in risk, but Esperion was indicating relative risk reduction of 23%. Both parties amended the partnership in Jan'24 (settling milestone payment dispute) with Daiichi agreeing to make payment of USD 100mn by mid-Jan'24 and USD 25mn by Sep'24.

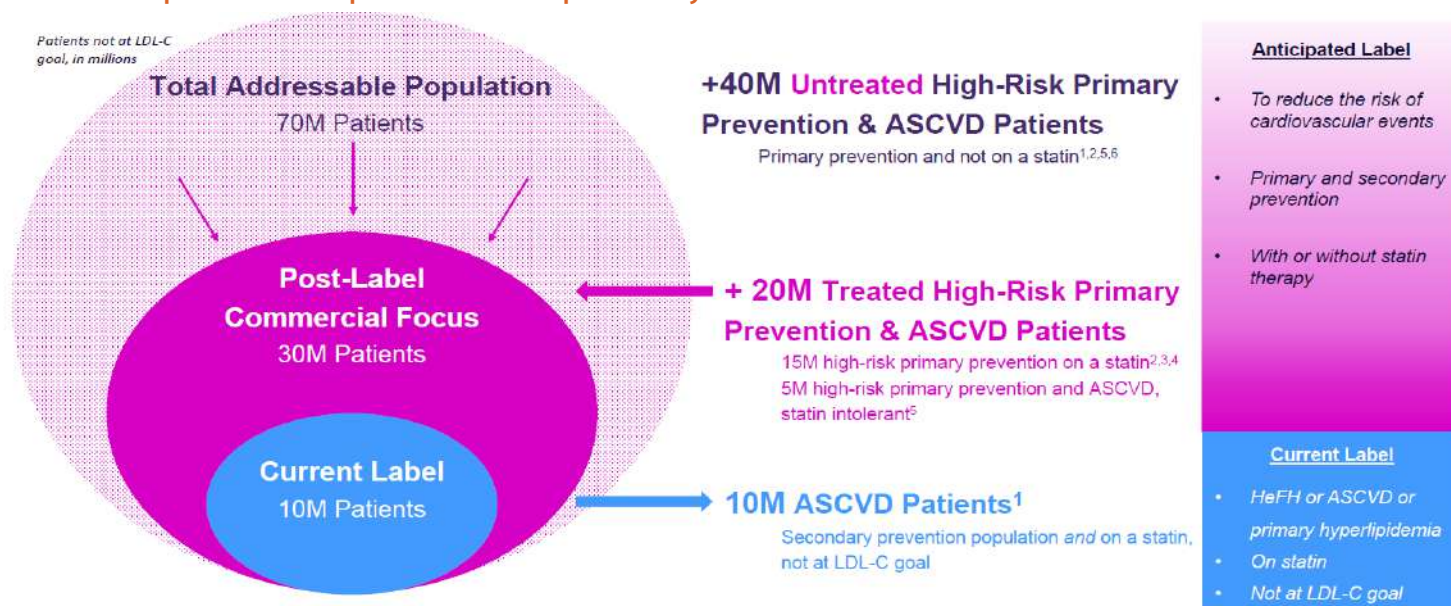
Exhibit 14: Esperion settlement with Daiichi

1	CASH	\$125M in near-term cash payments \$100M received \$25M expected in Q3 2024
2	MANUFACTURING & SUPPLY	Transfer of manufacturing and supply responsibilities to Daiichi Sankyo Europe (DSE) Significant annual cost savings
3	EXPANSION	Development plan for triple combination therapy in Europe Potential for additional patent exclusivity and royalty payments

Source: Company data, I-Sec research

Esperion anticipates two big events: 1) Mar'24 – PDUFA date anticipated for US cardiovascular risk reduction label inclusion; and 2) Q2CY24 – anticipated for EU cardiovascular risk reduction label inclusion. The label inclusions may significantly increase the addressable market for Esperion products.

Exhibit 15: Esperion label expansion could exponentially increase addressable market

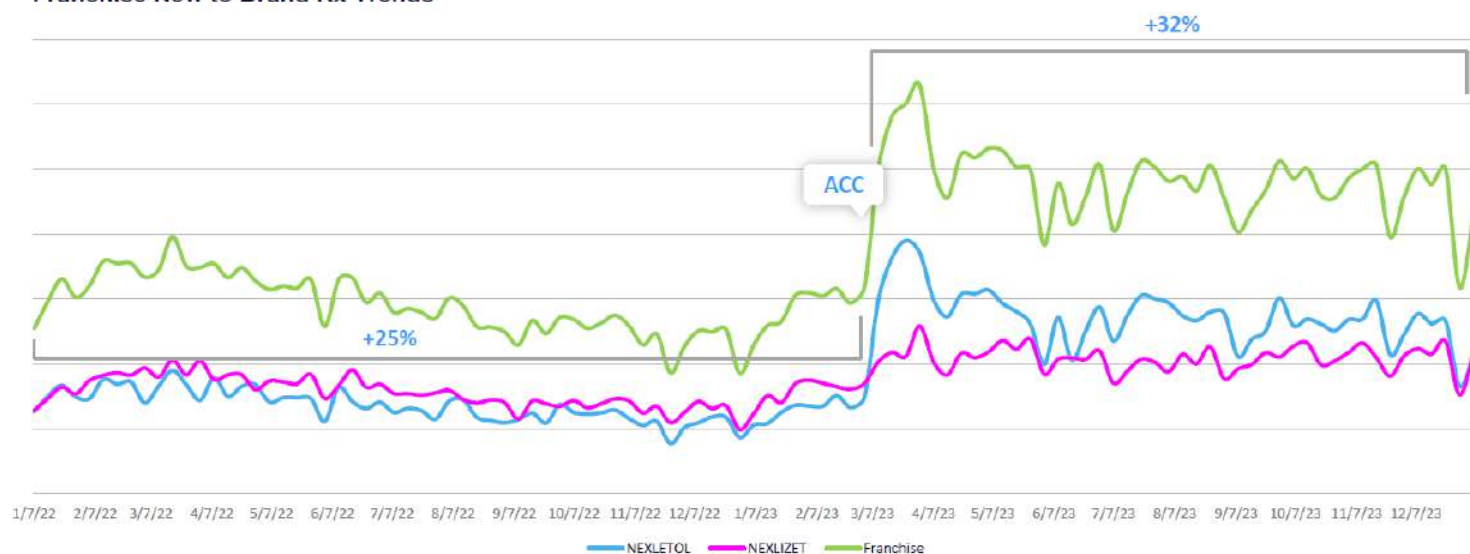


1. Allen JM, et al. Circulation. 2019;140:A12904. 2. Shen M, Nargesi AA, et al. J Am Heart Assoc. 2022;11:e026075. 3. Yang Y, et al. Circulation. 2021;144:A10434. 4. Wong ND, et al. J Clin Lipidology. 2016;10:1109-1118. 5. Bytlyci I, et al. Eur Heart J. 2022;00.1-16. 6. Total U.S. Resident Population by Age, Sex, and Series. April 1, 2020 [table]. US Census Bureau. 2020.

Source: Company data, I-Sec research

Exhibit 16: Outcome of data enabling sustained growth for bempedoic acid

Franchise New to Brand Rx Trends



Source: Company data, I-Sec research

BlueJet Healthcare has secured multi-year supply agreement with Esperion for n-2 intermediate (Diethyl 2,2,14,14-tetramethyl-8-oxo pentadecanedioate or BBA-04) which is used to produce bempedoic acid. The company has already started the supplies of intermediate in FY24, and it anticipates to expand the supplies as demand for the product increases. BlueJet has earlier intended to produce the basic building block TosMIC (for bempedoic acid), but the company has postponed the plan.

BlueJet is undertaking expansion in capacity for intermediate for bempedoic acid from current 36tpa to 144tpa by H1FY25 at Ambarnath Unit-2 plant, which will help cater to growing demand.

Neuland Laboratories has also signed a contract to supply API for bempedoic acid to Esperion. We do not have much insight into the market share of BlueJet in supplies to Esperion; however, we expect new capacity addition to help BlueJet expand its revenue from supplies to Esperion significantly in the next two years.

BlueJet also has a few other products in pipeline

1. **Nilotinib:** BlueJet has CDMO agreement for supplying 3,5-Dinitrobenzotrifluoride, which finds application in oncology product Nilotinib. The end innovator is Novartis, and the company supplies to API producer Olon SpA. Nilotinib is a tyrosine kinase inhibitor used in the treatment of chronic myelogenous leukaemia. Nilotinib was approved by the US-FDA in 2007.

Nilotinib's annual sales reached ~USD 1.78bn as of Jun' 23, a CAGR of 1.5% over Ju'19 and Jun'23. Global anti-neoplastic drugs market had fast growth and stands at USD 183bn as of Jun'23. The protein kinase inhibitor segment is one of the fastest growing sub-segments and had sales of USD 55bn. The global anti-neoplastic market is dominated by the US, which accounts for 45% of total sales, followed by EU5 at 21%.

2. **Anti-Parkinson's:** BlueJet has two intermediates for anti-Parkinson's - vanillic acid and vanilline acetate. Vanillic acid is used in Opicapone, etamivan and brovanexine. Opicapone is an O-methyltransferase inhibitor that is used in the treatment of Parkinson's disease as an adjuvant to levodopa/carbidopa (which are the key drugs of choice for treating Parkinson's disease). Opicapone was launched in Europe in 2016 and reached sales of >USD 134mn as of Jun'23. Anti-Parkinson's

drug market reached sales of USD 4.6bn as Jun'23. EU5 is 22% of total anti-Parkinson's drug market and USA is 18%.

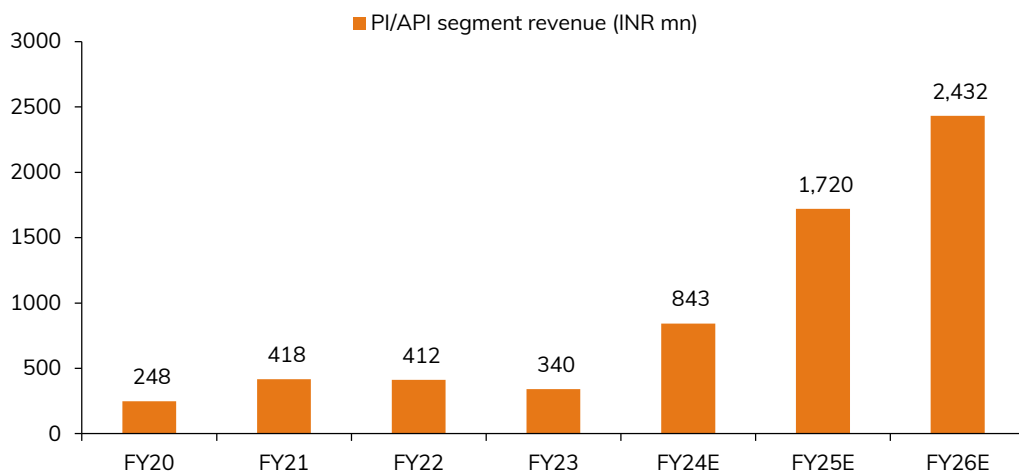
We believe as BlueJet ramps up new products, its PI/API revenue may grow exponentially, particularly, intermediate for bempedoic acid.

FY23-26E PI/API revenue to grow 7.2x, on low base, but margins may moderate

BlueJet's PI/API segment revenue is likely to jump to INR 2.4bn in FY26E (vs a meagre INR 340mn in FY23), and significant incremental revenue contribution is likely to come from Esperion's bempedoic acid intermediate. We have not factored in much revenue coming from oncology and Parkinson's products over the next two years, and it could be an upside risk.

The company is also working on a few other molecules in PI/API segment, which are likely to see commercial rollout; however, due to lower visibility, we have not factored in any new product launches in the next two years.

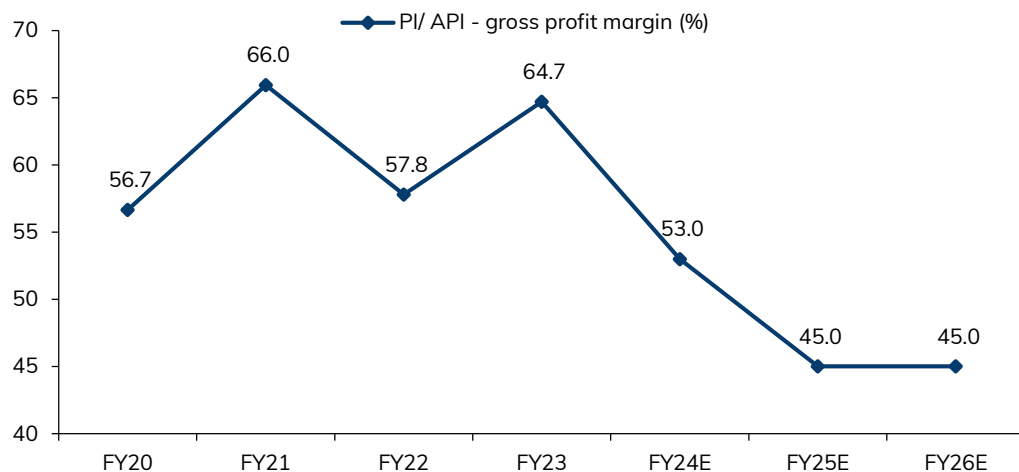
Exhibit 17: PI/API segment revenue to grow 7x over FY23-26E



Source: Company data, I-Sec research

We have assumed PI/API segment's gross profit margin to normalise to more CDMO margin level of 45-50%. We believe large contracts may come at lower margins, and higher margins from earlier can be attributed to smaller quantity supplies that commanded premium pricing.

Exhibit 18: Gross profit margin to normalise on supplies to large contracts



Source: Company data, I-Sec research

High intensity sweeteners – China competition takes off shine; company eyeing new opportunities

Rising China competition impacted pricing and volumes in FY24E

Sweeteners division has two kinds of customers – 1) long-term customers who require steady growth; and 2) spot customers, or sales through distributors. Long-term customers are sticky, though they negotiate prices based on raw material movement. Spot customers are relatively less sensitive, and pricing is priority. BlueJet is the only producer with pharma-grade saccharine plant, putting it in an advantageous position for pharmaceuticals and FMCG applications.

Exhibit 19: BlueJet sweetener portfolio

S/n	Products	End Use	Category
1.	Saccharin Insoluble	Electroplating industries as nickel brightener	Artificial sweetener
2.	Saccharin Imide	Probenazole	Fungicides
3.	Saccharin Sodium	Pharma excipient (sweetener), oral healthcare, feed, food and beverages	Artificial sweetener and pharma excipient
4.	Calcium Saccharin	Pharma excipient	Pharma excipient

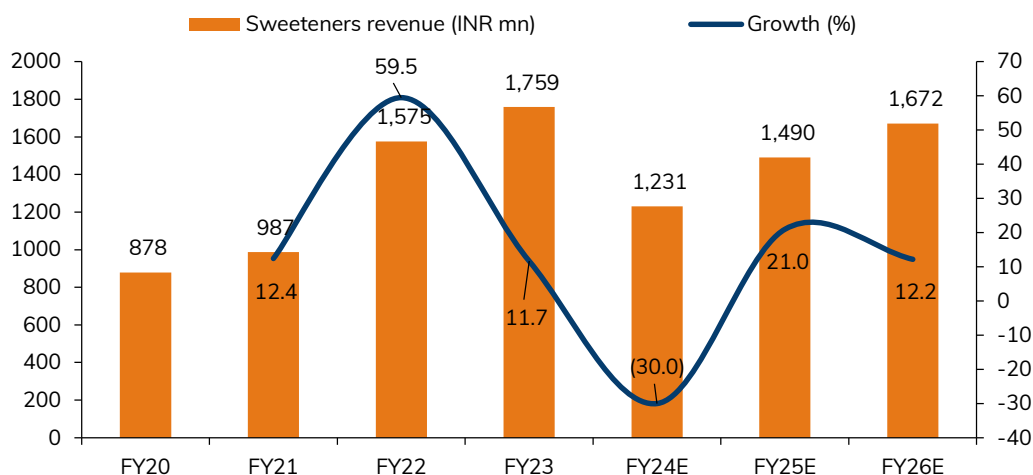
Source: Company data, I-Sec research

BlueJet's sweeteners revenue grew at a healthy 26% (CAGR) over FY20-23 driven by 20% CAGR in volume. However, in the past year, Chinese vendors have become very aggressive, and are dumping sweeteners at significantly lower costs. The company has protected its customers with long-term contracts, but has had to lower prices; however, it has lost volumes and pricing in spot market. We estimate sweeteners segment's revenue to decline 30% in FY24E. However, it should resume growing FY25E onwards, as markets normalise.

BlueJet only has saccharine in high intensity sweetener, and it recently indicated working with a large customer on another kind of sweetener that will help grow segment revenue. We have not built any revenue, apart from saccharine, into our estimates.

Sweeteners revenue should jump in FY25E with some normalisation in pricing and volumes, and thereafter it should have steady revenue growth of 10-12% pa.

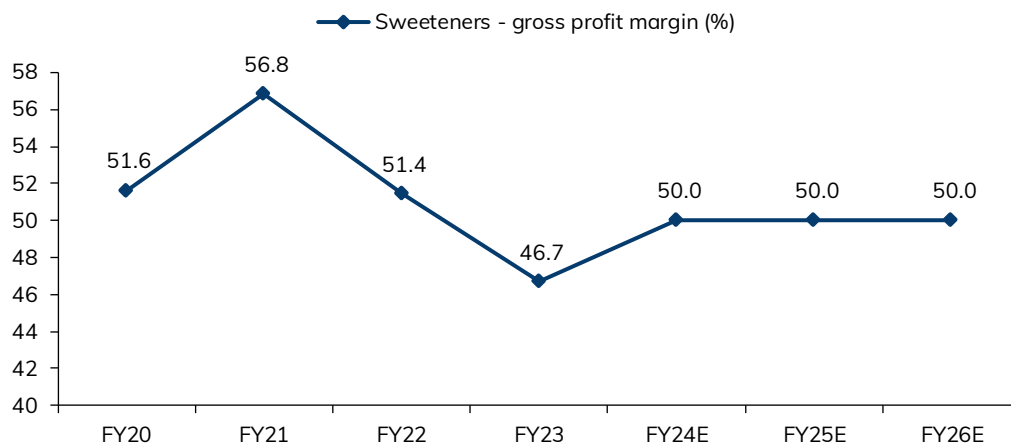
Exhibit 20: FY24E sweetener revenue to fall sharply, but should resume growing FY25E onwards



Source: Company data, I-Sec research

In FY24E, gross profit margin increased despite competitive intensity due to higher share of pharma-grade sweeteners, long-term contracts, and optical margin increase on lower raw material prices (arithmetical). We forecast gross profit margin to remain stable hereon.

Exhibit 21: FY24E gross profit margin increases due to lower realisation (arithmetical)



Source: Company data, I-Sec research

Industry overview

Contrast media

Contrast media are chemical agents developed to enhance the contrast of an imaging modality in diagnostic imaging, thereby aiding diagnosis of diseases. Once inside the human body, contrast media agents are selectively and temporarily taken up by different body tissues. By virtue of their inherent properties, contrast media agents enhance the images, leading to better visualisation of tissues and organs.

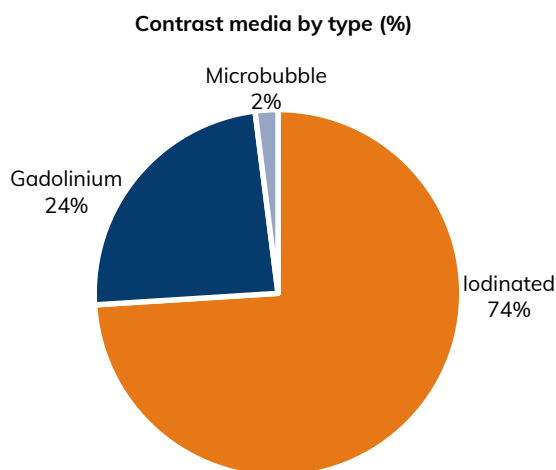
They are important tools in diagnostic imaging, to efficiently pinpoint tumours, infections or blood clots, detect internal injuries and internal bleeding, as well as diseases such as cancer, heart disease, lung nodules and liver masses. It also plays an important role in guiding procedures such as surgery, biopsies and radiation therapies.

Contrast media can be divided into three key segments based on the imaging modality for which they are used.

1. **Iodine based-contrast media:** Used as x-ray and CT-scan contrast agent. These equipment uses high-energy electromagnetic radiation for imaging.
2. **Gadolinium based-contrast media:** Used as MRI contrast agent. MRI scanners use strong magnetic fields, magnetic field gradients, and radio waves to generate images of the organs in the body.
3. **Microbubble-based contrast media:** Used in ultrasound contrast agent. Ultrasound uses high-frequency sound waves to make an image of a person's internal body structures.

As per IQVIA MIDAS, global contrast-media formulations market for Jun'23 was USD 5.9bn. Overall, contrast media formulations market is forecast to grow at a CAGR of 6-8% between CY23-25; growth is expected to be primarily volume-led.

Exhibit 22: Types of contrast media



Source: DRHP, I-Sec research

Iodinated contrast media

Different tissues in human body have different levels of transparency towards X-rays (air and fat are more transparent compared to bones) and hence show up as different scales of grey on the final image. Since 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.

Exhibit 23: Key products in iodinated contrast media

Molecule	Key player	Trade name	Market share (%)	CAGR (CY19-23, %)
Iohexol	GE Healthcare	Omnipaque	31-33%	<0%
Iodixanol	GE Healthcare	Visipaque	12-14%	<0%
Iopamidol	Bracco	Isovue	15-17%	<0%
Ioversol	Guerbet	Optiray	10-12%	5-6%
Iomeprol	Bracco	Imeron and Iomeron	10-12%	4-5%
Iopromide	Bayer	Ultravist	10-12%	5-6%
Iobitridol	Guerbet	Xenetix	4-6%	2-3%
Others			<1%	6-7%

Source: DRHP, I-Sec research

Gadolinium contrast media

Gadolinium is the molecule of choice for use as an MRI contrast agent, because it has the highest number of unpaired electrons. This property of gadolinium causes brighter images on MRI scans. These agents are injected intravenously.

Exhibit 24: Key products in gadolinium contrast media

Molecule	Key player	Trade name	Market share (%)	CAGR (CY19-23, %)
Gadoteric acid	Guerbet	Dotarem	31-33%	< 0%
Gadobutrol	Bayer	Gadavist	30-32%	2-3%
Gadoxetic acid	Bayer	Eovist	9-11%	7-8%
Gadobenic acid	Bracco	Multihance	8-10%	< 0%
Gadoteridol	Guerbet	ProHance	8-10%	2-3%
Gadopentetic acid	Bayer	Magnevist	5-7%	< 0%
Gadodiamide	GE Healthcare	Omniscan	3%	< 0%
Others			~0.5%	< 0%

Source: DRHP, I-Sec research

Gadopiclenol (NCE) is a new macrocyclic gadolinium-based contrast agent. In phase-3 clinical trials, the product has shown encouraging results in terms of high relaxivity, minimal/no protein binding, and high kinetic inertness – pointing to potential uses for central nervous system diagnostic studies.

Exhibit 25: US and China account for >50% of contrast media sales

Country / Region	Value (millions US\$ MAT June 2023)	Value share in % (2023)	CAGR % (2019 – 2023)
USA	1,694	29%	<0%
China	1,410	24%	4-5%
EU 5	1,342	23%	1-2%
Japan	343	6%	< 0 %
South-East Asia	173	3%	5-6%
Rest of the World	908	15%	~2%
Total	5,869	100%	~0-1%

Source: DRHP, I-Sec research

Contrast media – market structure

Global contrast media formulations industry is highly concentrated with four players accounting for ~75% of global sales of contrast media formulations (Source: IQVIA MIDAS). These four players are: Bayer, Bracco, GE Healthcare, and Guerbet.

The market is highly concentrated due to

- Four players are innovators/originators of the respective contrast media formulations products.
- Either have a forward integration play (that is – they manufacture the MRI/CT/X ray equipment), or have longstanding relationships with existing equipment makers.

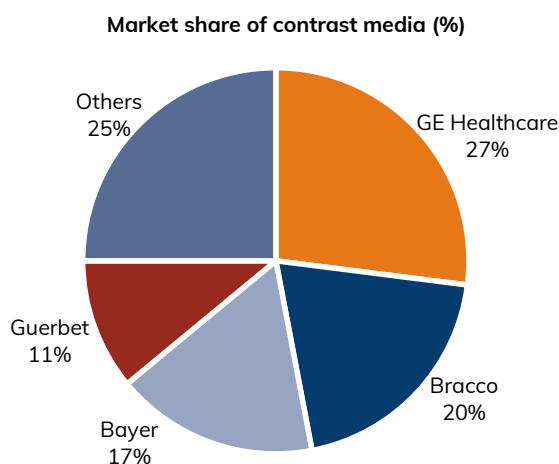
- Given the capital expenditure associated with these equipment, and the criticality of the output in determining patient treatment, end-users of contrast media (such as diagnostics labs and hospitals) typically prefer using the originator's formulation product as contrast media. Further, the closed-system nature of the equipment, that is – only a specific contrast media reagent is indicated for a given equipment, to the exclusion of other contrast media agents.

Exhibit 26: Concentrated market share among top-4 players

Players	Share of iodine-based contrast media %	Share of gadolinium-based contrast media %
Top four players combined	73%	81%
Others	27%	19%
Total	100%	100%

Source: DRHP, I-Sec research

Exhibit 27: Top-4 players in contrast media



Source: Industry, DRHP, I-Sec research

These players typically source intermediates from select vendors in India and China. The entry barriers for becoming a vendor to any of these four players are high on account of: 1) strict internal standards for product impurity/features profile; 2) stickiness of relationship; and 3) long-term supply contracts.

A limited number of India-based players supply contrast media intermediates to contrast media API/formulations companies based in US and Europe. There exist cases of molecules/intermediates where, for a specific intermediate, a single player has supplied >75% of the value of the intermediates exported from India over the past three years; for example, 5-Amino-N, N'-bis (2, 3-dihydroxypropyl) isophthalamide (ABA HCL), where over the past three years, the company has supplied >75% of the value of exports of the intermediate from India.

High intensity sweeteners

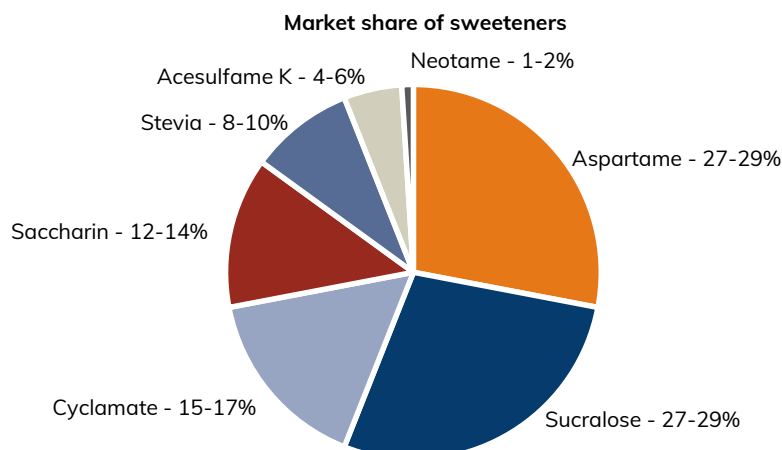
High intensity sweeteners are compounds that are commonly used as substitute for sugar in food, beverages, oral health, and pharmaceutical products. High intensity sweeteners are around 300-500 times sweeter than sugar but contribute negligible / limited calories, when added to food items. In CY23, global high-intensity sweetener market was estimated at USD 2.9-3bn, and anticipated to grow at a CAGR of 6-7% over the next 5 years.

Growth in high intensity sweeteners is driven by: 1) Growing incidence of diabetes and obesity and corresponding need for low-calorie foods; 2) shifting consumer preference, 3) increase in investment in R&D by manufacturers of end-products; and 4) rising

urbanisation and changing lifestyle, resulting in higher consumption of ready-to-eat/processed foods.

Globally, seven major high intensity sweeteners are popularly used. Aspartame and Sucralose together have >50% share in high intensity sweeteners. The next two large sweeteners are cyclamate and saccharin.

Exhibit 28: Popular sweeteners and their market share



Source: DRHP, I-Sec research

Exhibit 29: Comparison of key sweeteners

	Aspartame	Sucralose	Saccharine
Year of discovery	1965	1976	1879
Sweet vs. sugar	200x	600-650x	300-500x
Metabolic and biological properties	Metabolised to its constituent amino acids and methanol	Minimally metabolised and excreted unchanged	Not metabolised and excreted unchanged
Caloric value	4 kcal/g	Calorie-free	Calorie-free

Source: DRHP, I-Sec research

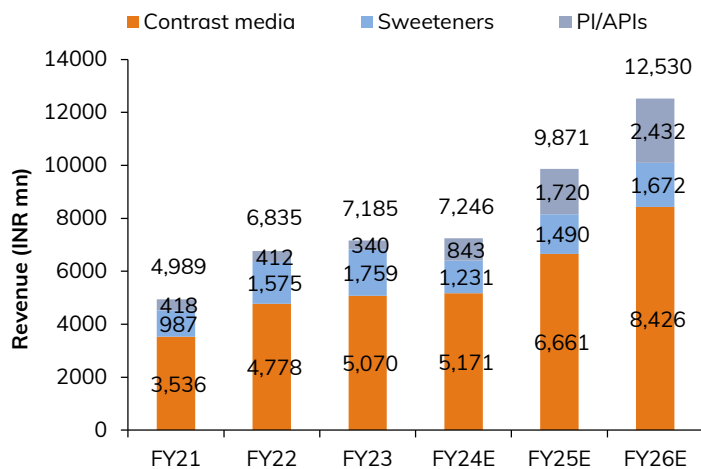
Saccharine forms 12-14% (by value) and 17-19% (by volume) of high-intensity sweeteners market. Saccharine is likely to continue holding this share within the high-intensity sweeteners market on account of – 1) taste consistency; 2) established safety profile; 3) cost effectiveness; and 4) versatility.

Global demand for saccharine is 37k-40kte pa. Saccharine manufacturers are primarily based in Asia with majority of production capacity being concentrated in China. The largest China-based player has manufacturing capabilities of >7ktpa. JMC, a leading Korea-based manufacturer, has capacity of 3.5ktpa. Only a select set of Indian players have comparable capacities. BlueJet has 3-4ktpa capacity while other India-based manufacturers have <1.5ktpa capacities.

The key end-applications of saccharine are oral care, non-alcoholic beverages (includes carbonated soft-drinks, juices, energy drinks, sports drinks, bottled water and ready to drink tea and coffee), bakery and confectionery, vitamins and dietary supplements, pharma excipient, etc.

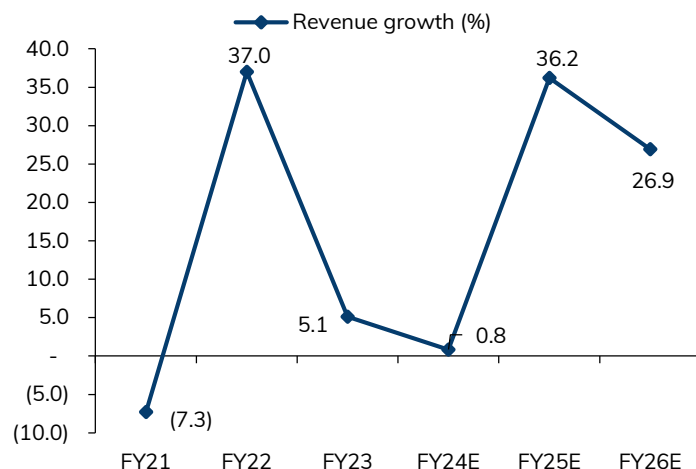
Financial

Exhibit 30: Contrast media and PI/API segments to drive growth for BlueJet



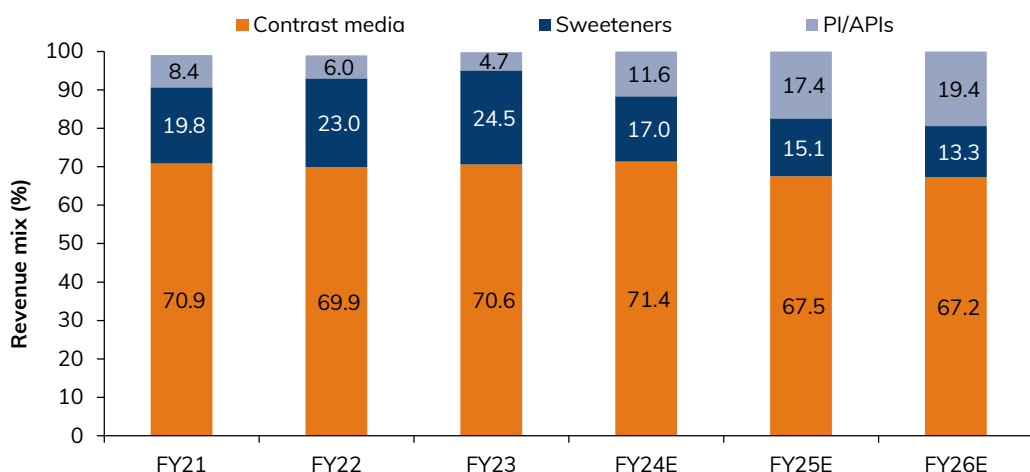
Source: Company data, I-Sec research

Exhibit 31: BlueJet's revenue to grow at CAGR of 20.4% over FY23-26E



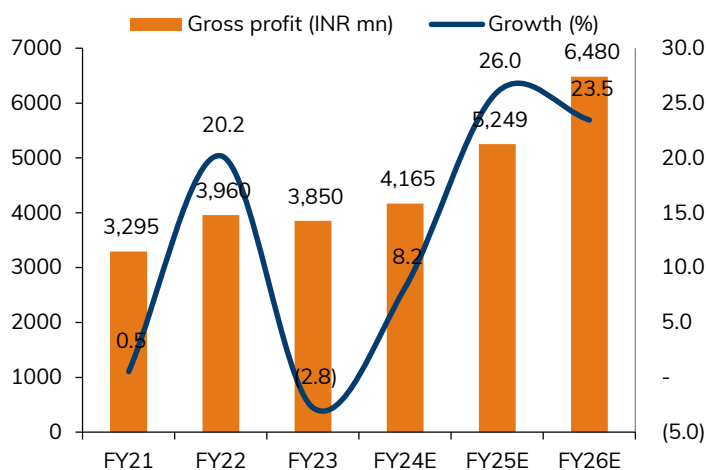
Source: Company data, I-Sec research

Exhibit 32: Contrast media intermediate may continue to be a dominant segment



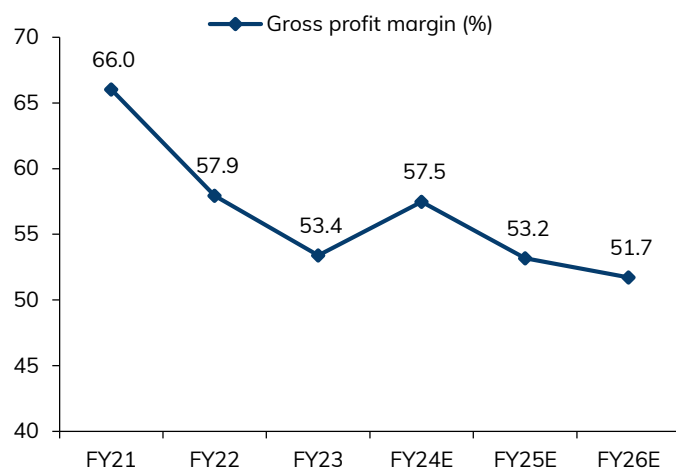
Source: Company data, I-Sec research

Exhibit 33: Gross profit to grow at CAGR of 19% over FY23-26E

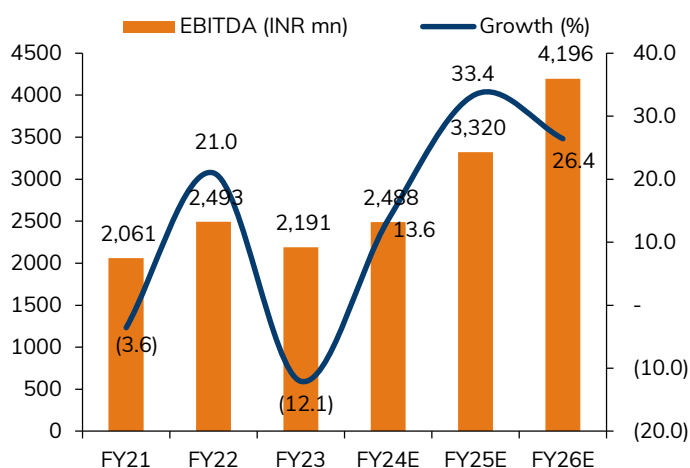


Source: Company data, I-Sec research

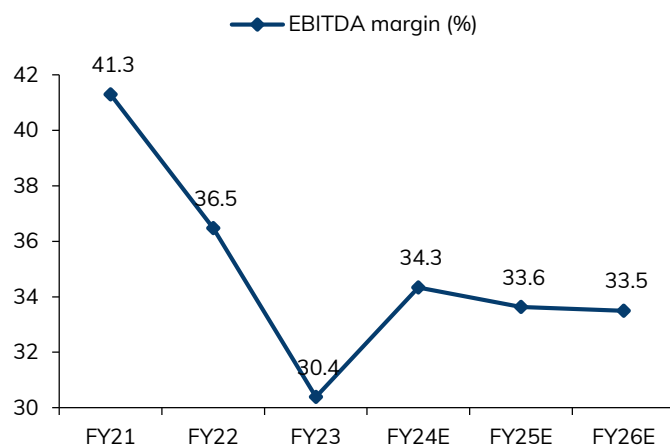
Exhibit 34: Gross profit margin to dip on account of change in product mix



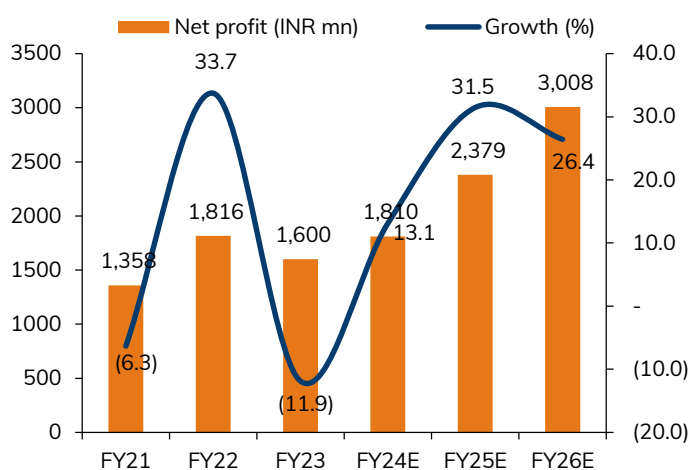
Source: Company data, I-Sec research

Exhibit 35: EBITDA to grow at CAGR of 24% over FY23-26E

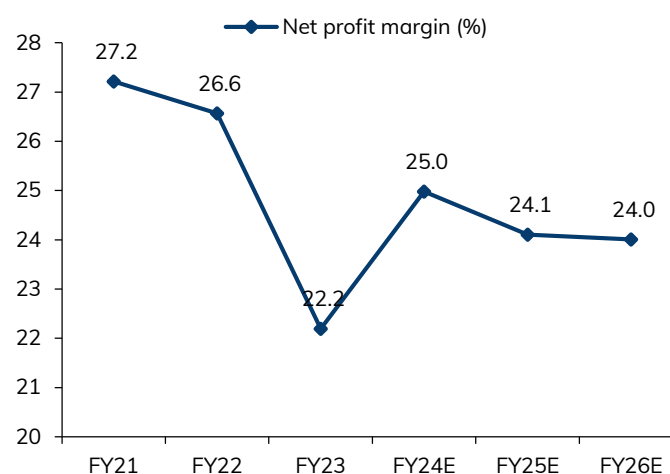
Source: Company data, I-Sec research

Exhibit 36: Lower APD prices, backward integration aiding margins in contrast media for legacy business

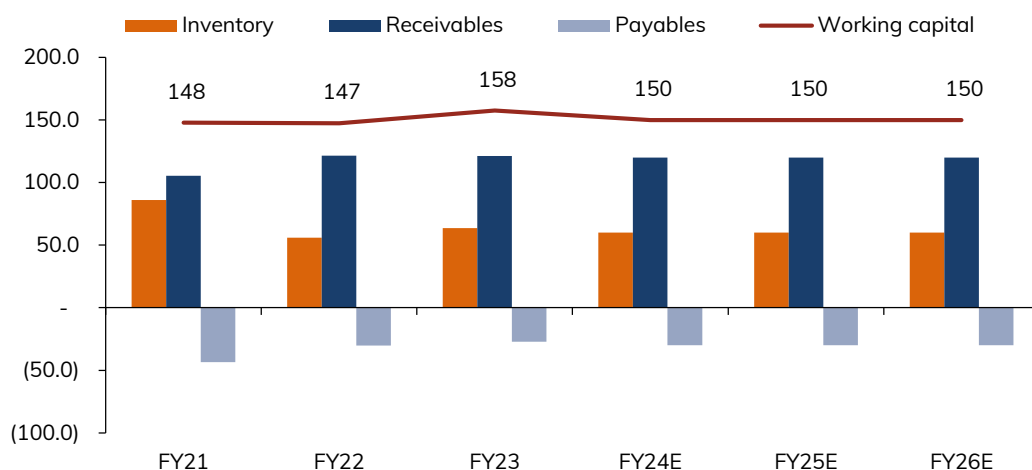
Source: Company data, I-Sec research

Exhibit 37: Net profit to grow at CAGR of 23.4% over FY23-26E

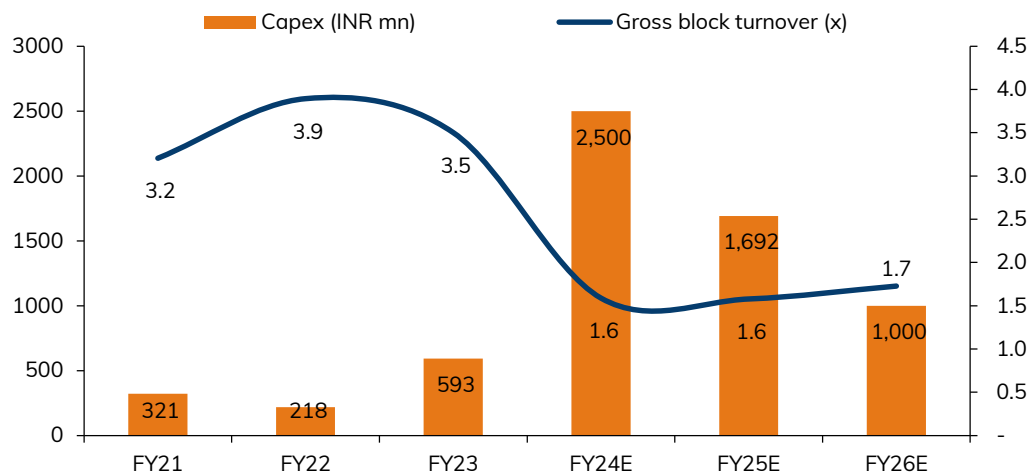
Source: Company data, I-Sec research

Exhibit 38: Healthy net profit margin

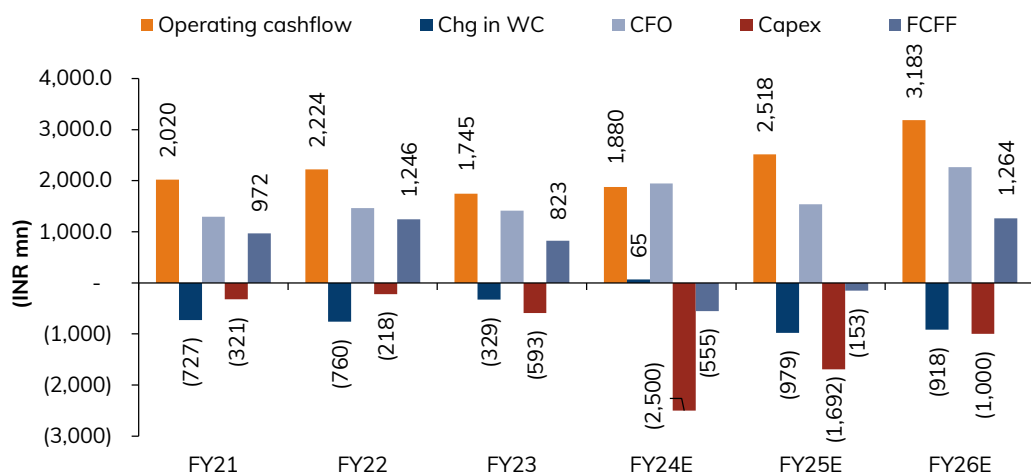
Source: Company data, I-Sec research

Exhibit 39: Higher working capital days as company manages supply chain for largest customer

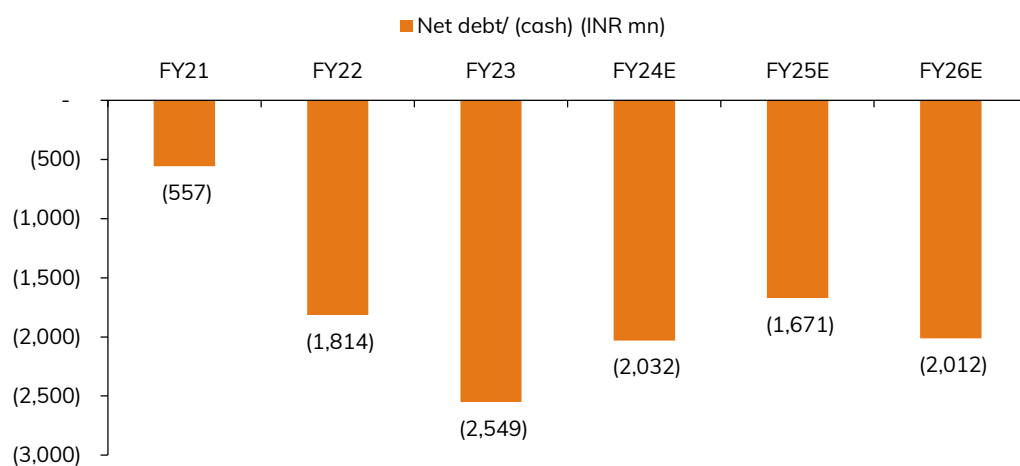
Source: Company data, I-Sec research

Exhibit 40: Gross block turnover to drop due to lower utilisation of new capex

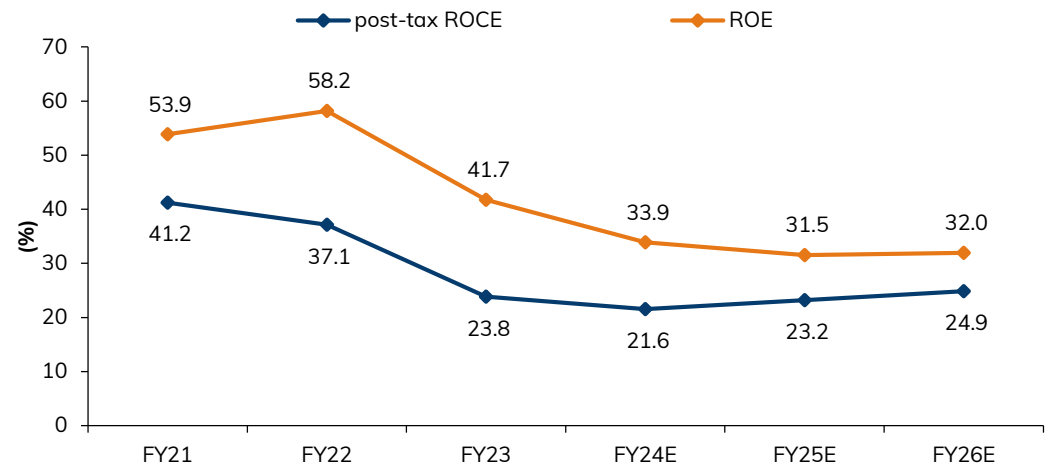
Source: Company data, I-Sec research

Exhibit 41: Post completion of large planned capex in FY24 and FY25, the company should start seeing FCF generation

Source: Company data, I-Sec research

Exhibit 42: BlueJet to remain net debt free

Source: Company data, I-Sec research

Exhibit 43: Return ratios to dip due to under-utilisation of large capex

Source: Company data, I-Sec research

Valuation – initiate coverage with BUY

We initiate coverage on BlueJet with **BUY** rating and target price of INR 450, valuing the company at 26x FY26E P/E multiple. This implies 18.1x FY26E EV/EBITDA and 6.4x P/BV at FY26E. The FCF yield at the target price is 2.1%.

We expect BlueJet's revenue/EBITDA/net profit to grow at a healthy CAGR of 20.4%/24%/23.4%, respectively. This is significant acceleration after stable revenues seen for the past three years, wherein the company had no new product launches. We expect BlueJet's revenue to grow on the back of 3-5 products addition, which could drive significant revenue growth, and also help diversify its business model, making it more resilient.

The salient features of new products for business are –

1. The company is moving up the value chain in iodinated contrast media with 4x from its existing largest product ABA HCL.
2. Foray into iodination is adding to capabilities. It may help in establishing relationship with iodine suppliers, and drive the learning curve in key iodine recovery, or re-purpose.
3. Foray in gadolinium contrast media, and intermediate supplies for NCE, are welcome milestones. NCE molecule is anticipated to ramp up and help drive revenues.
4. PI/API segment is very small even after two decades. It may see significant jump in revenue with intermediate supplies to Esperion. Esperion's bempedoic acid is likely to see exponential growth over the next couple of years, which may indeed drive growth for BlueJet.
5. The company is planning to add another variant of high intensity sweetener, which should help add leg to sweeteners segment's secular volume growth story.

We believe BlueJet's margin may moderate slightly with commercialisation of large capacity and greenfield expansion in two sites. Lower margins are also a factor of new products being margin dilutive. The company remains net debt free, and the entire capex is likely to be funded through internal accruals. It may continue to have very healthy return ratios.

We do not deny headwinds in contrast media from rising competitive intensity, but strong relationship, and long-term contracts should help the company continue growing. However, we believe if BlueJet fails to add more products in contrast media segment, revenue growth may materially decelerate – as was the case in past three years.

Contrast media is a niche, and exciting opportunity. BlueJet is a good play on proxy of rising importance of diagnosis in medical investigation. Even GE Healthcare believes contrast media formulation revenue will double in next 10 years.

Further, BlueJet's valuation is at a discount to its chemical and pharmaceutical peers, which provides a margin of safety in our view.

Exhibit 44: Peer comparison snapshot

INR mn	CMP INR	MCap INR bn	Revenue			CAGR (%) FY24-26E	EPS (INR)			CAGR (%) FY24-26E
			FY24E	FY25E	FY26E		FY24E	FY25E	FY26E	
Pharmaceutical intermediate										
Ami Organics	1,052	39	6,909	8,242	9,952	20.0	19	26	35	35.2
Aether industries	792	105	6,532	9,988	14,202	47.4	9	15	21	50.0
Navin Fluorine*	2,998	149	20,320	26,679	33,493	28.4	46.0	71.0	104.3	50.6
Median						28.4				50.0
Agrochemical CDMO										
SRF*	2,430	720	1,32,466	1,53,687	1,74,452	14.8	49.0	69.9	84.1	31.1
PI Industries	3,650	554	78,170	91,026	1,05,388	16.1	105.1	116.8	133.2	12.6
Navin Fluorine*	2,998	149	20,320	26,679	33,493	28.4	46.0	71.0	104.3	50.6
Anupam Rasayan	924	101	14,483	18,261	23,802	28.2	12.3	19.3	29.1	53.9
Median						22.2				40.8
Pharmaceuticals CDMO/ CRAMS										
Divis	3,518	934	77,017	89,099	1,03,915	16.2	59.5	76.9	96.6	27.5
Syngene	677	272	36,062	41,895	49,638	17.3	11.8	14.4	18.7	25.7
Laurus Labs	401	216	50,483	58,977	67,801	15.9	3.6	9.0	13.5	95.0
Neuland Laboratories	5,749	74	15,650	16,757	19,099	10.5	242.2	248.5	301.9	11.6
Median						16.0				26.6
BlueJet Healthcare	344	60	7,246	9,871	12,530	31.5	10.4	13.7	17.3	28.9

Source: Bloomberg. Note: * I-Sec research data

Exhibit 45: Peer comparison snapshot

	PE (x)		EV/EBITDA (x)		ROE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Pharmaceutical intermediate						
Ami Organics	40.6	30.5	25.0	19.4	17.0	17.0
Aether industries	53.7	38.5	36.1	24.7	11.1	11.1
Navin Fluorine*	42.2	28.7	26.4	19.5	14.0	18.0
Median	42.2	30.5	26.4	19.5	14.0	17.0
Agrochemical CDMO						
SRF*	34.8	28.9	20.3	17.1	16.8	17.7
PI Industries	31.3	27.4	22.9	19.9	18.1	18.1
Navin Fluorine*	42.2	28.7	26.4	19.5	14.0	18.0
Anupam Rasayan	47.9	31.7	22.3	16.9	10.0	10.0
Median	38.5	28.8	22.6	18.3	15.4	17.9
Pharmaceuticals CDMO/ CRAMS						
Divis	45.7	36.4	31.8	25.6	16.4	16.4
Syngene	47.1	36.2	21.8	18.0	14.9	14.9
Laurus Labs	44.6	29.6	19.3	14.9	15.1	15.1
Neuland Laboratories	23.1	19.0	14.8	12.4	21.5	21.5
Median	45.2	32.9	20.5	16.5	15.7	15.7
BlueJet Healthcare	25.1	19.8	17.5	13.7	31.5	32.0

Source: Bloomberg. Note: * I-Sec research data

Risks

Downside risks

- High concentration of one key product and one key customer. Any unfavourable development can materially harm prospects for BlueJet.
- Two out of three new products of BlueJet have exposure to NCE where market development for these products is critical for sale of intermediates for BlueJet.
- The company has significant exposure to innovators, and any unfavourable incidents (like two accidents in past one year) may hurt its business.
- Promoter has exposure to realty sector which is cyclical. Any indirect impact on private business of realty can be a valuation de-rating event.

Upside risks

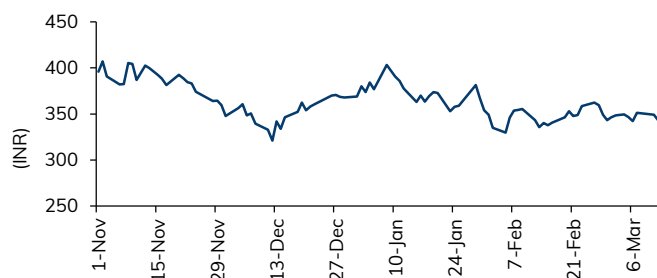
- Higher-than-expected penetration of two NCE molecules where BlueJet has supply agreements.
- BlueJet has a strong new product pipeline. We have assumed nil new launches in our estimates.
- Any large long-term contract win.

Exhibit 46: Shareholding pattern

%	Oct'23	Dec'23
Promoters	86.0	86.0
Institutional investors	6.7	6.6
MFs and others	2.3	2.2
FIs/Banks	0.6	0.0
Insurance	0.4	0.6
FIIIs	3.4	3.8
Others	7.3	7.4

Source: Bloomberg

Exhibit 47: Price chart



Source: Bloomberg

Financial Summary

Exhibit 48: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	7,210	7,246	9,871	12,530
Operating Expenses	5,019	4,758	6,551	8,334
EBITDA	2,191	2,488	3,320	4,196
EBITDA Margin (%)	30.4	34.3	33.6	33.5
Depreciation & Amortization	251	289	406	455
EBIT	1,940	2,199	2,914	3,741
Interest expenditure	13	14	15	16
Other Non-operating Income	240	235	282	296
Recurring PBT	2,166	2,420	3,181	4,021
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	566	610	802	1,013
PAT	1,600	1,810	2,379	3,008
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,600	1,810	2,379	3,008
Net Income (Adjusted)	1,600	1,810	2,379	3,008

Source Company data, I-Sec research

Exhibit 49: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	6,650	6,047	7,175	9,024
of which cash & cash eqv.	656	640	278	620
Total Current Liabilities & Provisions	1,739	1,730	2,250	2,850
Net Current Assets	4,912	4,317	4,925	6,174
Investments	1,893	1,393	1,393	1,393
Net Fixed Assets	1,815	4,026	5,313	5,857
ROU Assets	228	228	228	228
Capital Work-in-Progress	305	305	305	305
Total Intangible Assets	-	-	-	-
Other assets	155	167	193	220
Deferred Tax Assets	-	-	-	-
Total Assets	8,621	10,241	12,681	15,102
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	10	10	10	10
Provisions	41	41	57	74
Other Liabilities	-	-	-	-
Equity Share Capital	347	347	347	347
Reserves & Surplus	6,468	8,097	10,001	11,805
Total Net Worth	6,815	8,444	10,347	12,152
Minority Interest	-	-	-	-
Total Liabilities	8,621	10,241	12,681	15,102

Source Company data, I-Sec research

Exhibit 50: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23
Net Sales	1,795	1,814	1,668
% growth (YOY)		(4.7)	(1.3)
EBITDA	590	626	546
Margin %	32.8	34.5	32.7
Other Income	51	82	68
Extraordinaries			97
Adjusted Net Profit	441	479	321

Source Company data, I-Sec research

Exhibit 51: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	1,745	1,880	2,518	3,183
Working Capital Changes	(329)	65	(979)	(918)
Capital Commitments	(593)	(2,500)	(1,692)	(1,000)
Free Cashflow	823	(555)	(153)	1,264
Other investing cashflow	(880)	735	282	296
Cashflow from Investing Activities	(880)	735	282	296
Issue of Share Capital	-	-	-	-
Interest Cost	0	(14)	(15)	(16)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	0	(181)	(476)	(1,203)
Others	(14)	-	-	-
Cash flow from Financing Activities	(42)	(195)	(491)	(1,219)
Chg. in Cash & Bank balance	(99)	(15)	(362)	342
Closing cash & balance	654	640	278	620

Source Company data, I-Sec research

Exhibit 52: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	9.2	10.4	13.7	17.3
Adjusted EPS (Diluted)	9.2	10.4	13.7	17.3
Cash EPS	10.7	12.1	16.1	20.0
Dividend per share (DPS)	-	1.0	2.7	6.9
Book Value per share (BV)	39.3	48.7	59.7	70.1
Dividend Payout (%)	-	10.0	20.0	40.0
Growth (%)				
Net Sales	5.5	0.5	36.2	26.9
EBITDA	(12.1)	13.6	33.4	26.4
EPS (INR)	(11.9)	13.1	31.5	26.4
Valuation Ratios (x)				
P/E	37.3	33.0	25.1	19.8
P/CEPS	32.2	28.4	21.4	17.2
P/BV	8.8	7.1	5.8	4.9
EV / EBITDA	27.7	24.6	18.5	14.6
EV/SALES	8.4	8.4	6.2	4.9
Dividend Yield (%)	-	0.3	0.8	2.0
Operating Ratios				
Gross Profit Margins (%)	53.4	57.5	53.2	51.7
EBITDA Margins (%)	30.4	34.3	33.6	33.5
Effective Tax Rate (%)	26.1	25.2	25.2	25.2
Net Profit Margins (%)	22.2	25.0	24.1	24.0
NWC / Total Assets (%)	57.0	42.2	38.8	(6.1)
Net Debt / Equity (x)	(0.4)	(0.2)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(1.2)	(0.8)	(0.5)	(0.5)
Profitability Ratios				
RoCE (%)	23.8	21.6	23.2	24.9
RoE (%)	41.7	33.9	31.5	32.0
RoIC (%)	37.4	30.8	28.9	29.7
Fixed Asset Turnover (x)	4.0	1.8	1.9	2.1
Inventory Turnover Days	63.6	60.0	60.0	60.0
Receivables Days	121.2	120.0	120.0	120.0
Payables Days	27.2	30.0	30.0	30.0

Source Company data, I-Sec research

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