

## Company Overview

Blue Jet is a specialty pharmaceutical and healthcare ingredients and intermediates company, offering niche products targeted towards innovator pharmaceutical companies and multi-national generic pharmaceutical companies. The company has established a contract development and manufacturing organization (CDMO) business model with specialized chemistry capabilities in contrast media intermediates and high-intensity sweeteners on the back of strategic and early investments in R&D and manufacturing infrastructure. The company manufactures a range of products in-house, including the key starting intermediate and advanced intermediates, allowing it to control production processes for consistent quality and cost-effectiveness. The company has also built a long-term customer base with innovative and multi-national generic pharmaceutical companies, supported by committed multi-year contracts. Further, the company has collaboration, development, and manufacturing approaches critical to success and a key factor for growing CDMO business. Their operations are primarily organized into three product categories: (i) contrast media intermediates, (ii) high-intensity sweeteners, and (iii) pharma intermediates and active pharmaceutical ingredients (APIs). 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 June 30, 2023.

## Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Achieve the benefits of listing the Equity Shares on the Stock Exchanges;
- ⇒ Carry out the Offer For Sale of up to 24,285,160 equity shares by the Selling Shareholders;
- ⇒ General corporate purposes.

## Investment Rationale

### Focused and one of the leading manufacturers of contrast media intermediates

Blue Jet Healthcare has over two decades of experience manufacturing contrast media intermediates in India. The company manufactures contrast media intermediates and supplies 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 SpA, directly. Over the past three years, they have supplied over 75% of the value of exports of a selected contrast media intermediate from India. The global contrast media formulation market had a size of US\$5.9 billion in moving annual turnover for June 2023. The market is expected to grow at a 6-8% CAGR between 2023 and 2025, primarily driven by higher volumes. Seven iodinated contrast media APIs contributed to ~99% of the iodinated contrast media market, and seven gadolinium-based contrast media APIs contributed to almost 99.5% to 100% of the gadolinium-based contrast media market in terms of MAT for June 2023. The company supplies the key starting intermediate as the building block and several functionally critical advanced intermediates for manufacturing seven of these iodinated contrast media. In 2020, another contrast media intermediate was developed and commercialized as the building block for all gadolinium-based contrast media, significantly increasing the total addressable market. The company is now moving up the value chain from the building blocks by developing advanced intermediates to cater to customers.

### Long-standing relationships and multi-year contracts with multinational customers enable strong and consistent financial performance

As a CDMO, Blue Jet collaborates and not compete with customers. The company has been able to establish long-standing customer relationships in each of the product categories owing to 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 key customers. Due to long-standing customer relationships, the company has garnered a significant share of the addressable market. The company entered into annual and multi-year supply contracts ranging from one to four years, thus providing strong revenue predictability and cash flow visibility. Over 70% of total sales from the last three financial years were backed by contracted sales volumes through annual and multi-year contracts. The company has been supplying contrast media intermediates as building blocks for manufacturing contrast media

Issue Details	
Offer Period	25 <sup>th</sup> Oct, 2023 - 27 <sup>th</sup> Oct, 2023
Price Band	Rs. 329 to Rs. 346
Bid Lot	43
Listing	BSE & NSE
Issue Size (no. of shares in mn)	24.3
Issue Size (Rs. in bn)	8.4
Face Value (Rs.)	2

Issue Structure	
QIB	50%
NIB	15%
Retail	35%
BRLM	Kotak Mahindra Capital Ltd., JP Morgan India. Ltd., ICI Securities Ltd.
Registrar	Link Intime India Pvt. Ltd

Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	100%	86%
Public	0%	14%
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

(Assuming issue subscribed at higher band)

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## Blue Jet Healthcare Ltd.

manufactured by the world's four largest contrast media manufacturers, including three of such manufacturers directly. In the high-intensity sweetener category, the ability to deliver quality products has enabled the company to establish long-term relationships with several key customers including Colgate-Palmolive (India) Limited, Unilever, Prinova US LLC, and MMAG Co. Ltd., which has provided a stable revenue stream. Blue Jet provides innovator pharmaceutical companies with pharma intermediates under a CDMO model for manufacturing NCEs in the pharma intermediate and API category. The company manufactures these pharma intermediates for Hovione Farmaciência, Olon SpA, Esperion Therapeutics Inc., and Bial-Portela & CA, SA.

### Valuation

Blue Jet Healthcare has established a contract development and manufacturing organization (CDMO) business model with specialized chemistry capabilities in contrast to media intermediates and high-intensity sweeteners. The CDMO model allows the company to benefit from the accessibility to innovations of new molecules and helps lessen research costs and concentrate on efficient product development on a large scale. It also offers an advantageous position to continue to provide such products after they go off-patent in concurrence with customers. Further, Blue Jet plans to expand production capacities in Unit III from 213 KL as of June 30, 2023 to 499 KL by FY2025. The company also acquired a greenfield manufacturing site (Unit IV) on a leasehold basis in Ambarnath in 2021 to build several multi-purpose blocks dedicated to pharma intermediate and API business which allowed it to increase the manufacturing capacity and scale its business. Once the capacity expansion at Unit III is completed and Unit IV is operational, the total annual production capacity is expected to reach 1,513.6 KL by the end of FY25. Further, the company has a track record of sustained revenue and PAT growth, growing at a CAGR of 20.2% and 8.6% during the FY21-23 period, with strong RoE and ROCE of 26.6% and 31.9%, respectively, in FY23. Further, the growth in the CDMO model, robust financial performance and expanding production capacity are expected to drive the company's performance going ahead. **On the upper price band, the issue is valued at a P/E of 37.5x based on FY2023 earnings which we feel is fairly valued. We, therefore, recommend an SUBSCRIBE rating for the issue.**

### Key Risks

- ⇒ Any disruption, slowdown, or shutdown in manufacturing or research and development operations could adversely affect the financial condition, cash flows, and results of operations.
- ⇒ The company depends on a limited number of raw material suppliers, and its three largest suppliers are located in China, Norway, and India. Any delay, interruption, or reduction in the supply or transportation of raw materials or an increase in the costs of such raw materials to manufacture products may adversely affect business, operations, and cash flows.
- ⇒ The company's manufacturing facilities and procurement operations are concentrated in one state, and any adverse developments affecting this region could hurt business, results of operations and financial condition.



## Blue Jet Healthcare Ltd.

## Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
<b>Revenue</b>			
Revenue from Operations	4,989	6,835	7,210
<b>Total Revenue</b>	<b>4,989</b>	<b>6,835</b>	<b>7,210</b>
<b>Expenses</b>			
Cost of raw materials consumed	2,143	2,837	3,503
Purchases of Stock-in-Trade			
Changes in inventory	-448	38	-143
Employee benefit expenses	290	330	419
Other expenses	945	1,137	1,240
<b>Total Operating Expenses</b>	<b>2,929</b>	<b>4,342</b>	<b>5,019</b>
<b>EBITDA</b>	<b>2,061</b>	<b>2,493</b>	<b>2,191</b>
Depreciation and Amortization expenses	197	221	251
Other income	89	194	240
<b>EBIT</b>	<b>1,953</b>	<b>2,465</b>	<b>2,180</b>
Finance costs	53	33	14
Exceptional Item	-53	0	0
<b>PBT</b>	<b>1,847</b>	<b>2,432</b>	<b>2,166</b>
<b>Total tax</b>	<b>489</b>	<b>616</b>	<b>566</b>
<b>PAT</b>	<b>1,358</b>	<b>1,816</b>	<b>1,600</b>
<b>Diluted EPS</b>	<b>8.0</b>	<b>10.5</b>	<b>9.2</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23
Cash Flow from operating activities	1,293	1,464	1,416
Cash flow from investing activities	-507	-760	-1,473
Cash flow from financing activities	-275	-561	-42
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>511</b>	<b>142</b>	<b>-99</b>
Cash and cash equivalents at the beginning of the period	101	611	754
<b>Cash and cash equivalents at the end of the period</b>	<b>611</b>	<b>754</b>	<b>654</b>

Source: RHP, BP Equities Research



## Blue Jet Healthcare Ltd.

## Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23
<b>Equity and Liabilities</b>			
Equity Share Capital	99	347	347
Other Equity	3,299	4,868	6,468
<b>Total Equity</b>	<b>3,398</b>	<b>5,215</b>	<b>6,815</b>
<b>Non-Current Liabilities</b>			
Financial Liabilities			
(i) Borrowings	287	0	0
(ii) Lease Liabilities	0	133	15
Provisions	33	38	41
Deferred tax liabilities (net)	14	3	10
<b>Current Liabilities</b>			
Financial Liabilities			
(i) Borrowings	229	0	0
(ii) Lease Liabilities	0	40	19
(iii) Trade Payable	595	565	538
(iv) Other financial liabilities	284	270	356
Current tax liabilities	499	851	809
Provisions	19	13	12
Other current liabilities	4	5	5
Total Current Liabilities	1,631	1,745	1,739
<b>Total liabilities</b>	<b>1,965</b>	<b>1,918</b>	<b>1,806</b>
<b>Total Equity and Liabilities</b>	<b>5,363</b>	<b>7,134</b>	<b>8,621</b>
<b>Assets</b>			
<b>Non-Current Assets</b>			
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
Other financial assets	13	30	34
Income tax assets(net)	0	0	0
Deferred tax assets(net)	0	0	0
Other non current assets	35	21	121
<b>Total Non current assets</b>	<b>1,462</b>	<b>1,650</b>	<b>1,970</b>
Current Assets			
Inventories	1,178	1,050	1,257
Investments	368	938	1,893
(i)Trade Receivables	1,440	2,274	2,394
(ii)Cash and cash equivalents	705	877	656
(iii)Other Current Financial Assets	36	68	185
Other current assets	174	276	266
<b>Total Current Assets</b>	<b>3,901</b>	<b>5,483</b>	<b>6,650</b>
<b>Total Assets</b>	<b>5,363</b>	<b>7,134</b>	<b>8,621</b>

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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