

### Subscribe

Issue Detail	
Price Band (Rs)	Rs.329-Rs.346
Face Value (Rs)	2.00
Issue Size (Rs)	840.27 Cr
Issue Type	Book Built Issue IPO
Minimum lot	43 Shares
Issue Opens	October 25, 2023
Issue Closes	October 27, 2023
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	November 01, 2023
Unblocking of Funds	November 01, 2023
Credit of shares to Demat Account	November 03, 2023
Listing on exchange	November 06, 2023

Other Detail	
Book Running Lead Managers	Kotak Mahindra Capital Company Limited, ICICI Securities Limited and J.P. Morgan India Private Limited.
Registrar	Link Intime India Private Limited.

IPO Shareholding (%)		
Category	Pre-Issue	Post-Issue
Promoters	100.00%	86.00%
Public	0.00%	14.00%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

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## Blue Jet Healthcare Limited

### Company Background

**Blue Jet Healthcare Limited (BJHL)** was incorporated in 1968, Blue Jet Healthcare is a pharmaceutical and healthcare ingredient and an intermediate company. The Company was the first manufacturer of saccharin and its salts (artificial sweeteners) in India. They later expanded into contrast media intermediates, which are used in CT scans and MRIs.

As a result of the consistent quality of high-intensity sweeteners, BJHL has become part of the select supplier base of several multi-national companies in the oral care and non-alcoholic beverage markets, such as Colgate Palmolive (India) Limited, Unilever, Prinova US LLC, and MMAG Co. Ltd, and many other international and domestic customers across all end product categories.

The company mainly deals in three product categories:

- (i) Contrast media intermediates,
- (ii) High-intensity sweeteners, and
- (iii) Pharma intermediates and active pharmaceutical ingredients.

The company has three manufacturing facilities, which are situated in Shahad (Unit I) Ambarnath (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.

### Issue Details

The IPO Offer for Sale of equity shares aggregating upto Rs. 840.27 Cr.

### Issue Objectives

1. Achieve the benefits of listing the Equity Shares on the Stock Exchanges
2. Carry out the Offer for Sale of up to 2,42,85,160 equity shares by the Selling Shareholders.

### IPO Share Issue Structure

Category	Allocation	Number of Shares at Rs. 346	Value at upper price band (Rs. in Cr.)
QIB (Institutional)	50%	1,21,42,580	420.13
Non Institutional	15%	36,42,774	126.04
Retail	35%	84,99,806	294.09
<b>Total</b>	<b>100%</b>	<b>2,42,85,160</b>	<b>840.27</b>

Source: Company RHP, ACMIIL Research

### Outlook and Valuation

The Company is well-positioned to capture a significant share of growth due to the large manufacturer of contrast media intermediates in India, presence in niche categories with high barriers to entry, strong product development and process optimization capabilities with a focus on sustainability and an experienced management team with proven execution capabilities. At the upper price band of 346/-, stock is priced at 37.48 its FY23 EPS. **We recommend subscribing to the issue from a medium to long-term perspective.**

### Company and Business Operations

BJHL is a specialty pharmaceutical and healthcare ingredients and intermediates company, offering niche products targeted toward innovator pharmaceutical companies and multi-national generic pharmaceutical companies. Since incorporation in 1968, they have established a contract development and manufacturing organization (“CDMO”) business model with specialized chemistry capabilities in contrast to media intermediates and high-intensity sweeteners, on the back of strategic and early investments in research and development (“R&D”) and manufacturing infrastructure. It has competencies and manufacturing capabilities in contrast to media intermediates and high-intensity sweeteners, including saccharin and its salts. The company manufactures a range of products in-house, including the key starting intermediate and advanced intermediates, which allows it to control the production process for consistent quality and cost-effectiveness.

#### The operations of BJHL are primarily organized into three product categories:

##### A) Contrast Media Intermediates

Contrast media are agents used in medical imaging to enhance the visibility of body tissues under X-rays, computed tomography (“CT”), magnetic resonance imaging (“MRI”) or ultrasound. The company 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. Company had long-term relationships ranging from four to 24 years with these manufacturers. As of June 30, 2023, company commercialized contrast media intermediate portfolio comprised 19 products.

##### B) High-intensity Sweeteners

The high-intensity sweetener business involves development, manufacture and marketing of saccharin and its salts, which is backward integrated with the aim to ensure environmental sustainability with zero by-products and cost effective production processes. Saccharin is primarily used in table-top sweeteners, oral care products such as toothpastes and mouthwashes, beverages (primarily soft-drinks), confectionary products (such as mints, candies, and bakery products), pharmaceutical products, food supplements and animal feeds. The oral care market is reasonably concentrated, with the top five players (Colgate, Procter & Gamble, Johnson & Johnson, Unilever and Glaxo-Smith Kline) commanding nearly 60% of the market in aggregate. The non-alcoholic beverages market, specifically the carbonated soft drinks segment, is dominated by two players (PepsiCo and the Coca Cola Company), which have a combined revenue share of nearly 75%.

##### C) Pharma Intermediates and APIs

The CDMO activity in the pharma intermediate and API business primarily focuses on collaborating with innovator pharmaceutical companies and multi-national generic pharmaceutical companies by providing them with pharma intermediates that serve as building blocks for APIs in chronic therapeutic areas, such as the cardiovascular system (“CVS”), oncology and central nervous system (“CNS”), including new chemical entities (“NCEs”). BJHL engages with many of CDMO customers early in the drug development process, which provides the opportunity to continue to expand the relationship with these customers as the drug development progresses through the clinical phase and into commercial manufacturing.

### Industry Overview with Segmental Growth Outlook

##### A) Contrast Media Intermediates

Contrast media are chemical agents developed to enhance the contrast of an imaging modality in diagnostic imaging, thereby aiding diagnosis of diseases.

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

- X-ray / Computed Tomography (“CT”) contrast agents: these are predominantly iodine-based contrast media agents;
- Magnetic Resonance Imaging (“MRI”) contrast agents: these are predominantly gadolinium based contrast media agents; and
- Ultrasound (“USG”) agents: these are stabilized microbubble-based contrast media agents

The global contrast media formulation market had a market size of US\$5.9 billion in terms of moving annual turnover<sup>1</sup> for June 2023. The market is expected to grow at a CAGR of 6-8% between the calendar years 2023 and 2025, with growth expected to be primarily led by volume. It is dominated by four contrast media manufacturers, namely GE Healthcare AS, Guerbet Group, Bracco Imaging S.p.A and Bayer AG. These four largest contrast media manufacturers contributed to approximately 70% of the global moving annual turnover consistently from June 2013 to June 2023.

## B) High-Intensity Sweetener

Saccharine is a 'high-intensity sweetener'. High intensity sweeteners are compounds that are commonly used as substitute for sugar in food, beverages, oral health, and pharmaceutical products ("End Products"). High intensity sweeteners are around 300-500 times sweeter than sugar but contribute negligible / limited calories, when added to food items. In 2023, the global high-intensity sweetener market was estimated to be a US\$2.9 to US\$3.0 billion (approximately ₹232-₹240 billion) in size, comprising products such as Sucralose, Aspartame, Saccharine and Stevia and Neotame. The high-intensity sweeteners market is estimated to grow at a CAGR in the range of 6% to 7% over the next 5 years.

## C) Pharmaceuticals Intermediates

Pharmaceutical intermediates are compounds that form building blocks of pharmaceutical products. In terms of value-chain, pharmaceutical intermediates are synthesized into active pharmaceutical ingredients (APIs) and these APIs are then formulated into final pharmaceutical formulations such as tablets, capsules, injections etc. Volume growth in pharmaceuticals intermediates is therefore positively correlated to the demand for the corresponding pharmaceutical products.

## Key Industry Demand Driver

### A) Growth Drivers for Contrast Media

#### 1) Growing population and changing demographics

According to the UN estimates, the global population is expected to rise from 7.9 billion in 2021 to 8.5 billion in 2030. The segment of the population aged 65 years and above is estimated to increase from 6.9% of total world population in 2000 to an estimated 10.4% by 2025. An aging population is expected to increase the overall spending on healthcare, including an increased spending on diagnostics.

#### 2) Growing prevalence of lifestyle diseases

Globally, factors such as hypertension, smoking, irregular diet patterns, increasing prevalence of diabetes, physical inactivity, obesity etc. in the young population (especially in individuals less than 40 years of age) has led to the emergence of various lifestyle diseases in the early stages of life. This, in turn, is expected to drive increased spend on diagnostics.

#### 3) Rising healthcare expenditure

Healthcare expenditure is transitioning globally, with a rapid rise in domestic spending, both out-of-pocket and publicly funded. During the period from 2000-2017, global health expenditure has grown at a CAGR of 3.9% while the global economy grew at a CAGR of 3.0%. This phenomenon (higher domestic spending on healthcare) is expected to increase further due to innovative public and private healthcare financing initiatives undertaken by the countries across the world.

#### 4) Focus on early diagnosis

Advancement in diagnostic technologies (such as nuclear imaging, radiographic tests, etc.) coupled with growing public awareness are expected to drive the demand for diagnostic services.

#### 5) Increased convenience

Convenience (provided to the customers through online booking and online reporting, which result in time-saving for the patient) will be one of the key levers to drive demand for diagnostics services. Diagnostic labs, on their part, are investing in having a stronger network of labs and advanced lab technologies to increase the turn-around time for the tests and further add to the patient convenience.

#### 6) Increasing demand for preventive healthcare

Globally, demand for preventive healthcare has increased on account of (a) increased awareness and (b) rising curative costs. Employers across the globe are promoting preventive and wellness tests on a regular basis for their employees, to support the well-being of their employees and potentially reduce absenteeism and other health risks.

### B) Growth Drivers for High Intensity sweeteners

#### 1) Growing incidence of diabetes and obesity and corresponding need for low-calorie foods

Approximately 537 million adults (i.e., individuals in the age group of 20-79 years) are estimated to be living with diabetes in 2023 and the number is projected to rise to 643 million by year 2030. Further, obesity worldwide has nearly tripled since 1975. With the growing burden of diabetes and obesity, the demand from consumers for low-calorie food and beverage products is expected to rise.

#### 2) Shifting consumer preference

Consumers previously looking for reduced fat content are shifting their focus towards reduction in consumption of sugar. This trend has led food and beverage manufacturers to develop and market “sugarfree” products, by using high-intensity sweeteners in their formulations.

#### 3) Increase in investment in R&D by manufacturers of end-products

Manufacturers of End Products (such as FMCG companies, companies that market beverages and oral care products) are making investments in R&D programs and are setting up innovation labs, to:

- Develop product solutions that address customer feedback such as delay in perceived sweetness, bitter aftertaste, and lack of mouth feel; and
- Evaluate the long-term health impact of artificial sweeteners.

#### 4) Rising urbanization and changing lifestyle resulting in higher consumption of ready-to-eat / processed foods

High-intensity sweeteners are extensively used in packaged food products such as ready-to-eat foods, beverages, frozen meals etc. While demand for packaged food and beverage products has historically been driven by developed markets (such as United States, Canada, Western Europe, and Japan), developing economies in South-East Asia / select countries within Africa are expected to drive future growth for convenience food products due to rising urbanization, increase in disposable income, growing middle class population and changing lifestyle patterns.

### C) Growth Drivers for Pharmaceuticals Intermediates

- Increased propensity to outsource manufacturing by innovators and generics companies.
- Increased propensity to de-risk dependence on China for supply of APIs and intermediates and drive self-sufficiency.
- Overall growth drivers for the global pharmaceuticals market.

## Competitive Strengths

### Large manufacturer of contrast media intermediates in India

With more than two decades of experience in manufacturing contrast media intermediates, company is large manufacturer of contrast media intermediates in India. The company manufacture 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.

### Presence in niche categories with high barriers to entry

BJHL strategically focus 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 the internal product portfolio team. The barriers to entry for becoming a supplier to any of the large contrast media manufacturers are high, as a result of (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.

### Long-standing relationships and multi-year contracts with multi-national customers

As a CDMO, BJHL collaborate and not compete with their customers. With 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, company has been able to establish long-standing customer relationships in each of the product categories where they operate.

### **Strong product development and process optimization capabilities with a focus on sustainability**

The business is attributable to strong product development and process optimization capabilities, underpinned by in-house R&D capabilities, which has enabled to forward integrate from manufacturing a key starting intermediate as building block for contrast media in 2000 to 18 additional advanced intermediates with higher realization and profitability per unit.

### **Manufacturing facilities with regulatory accreditations**

BJHL currently operate 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. The layouts and equipment configuration of manufacturing facilities help to 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 products.

### **Experienced management team with proven execution capabilities**

The management team has been able to create value through organic growth, including new business opportunities through existing channels, primarily built on customer loyalty and credibility. The operational and management experience of management team has also increased agility and ability to cater to the customized requirements of customers and proactively plan and execute projects. They have a robust corporate governance system in place to monitor, guide and support operations, with oversight by an experienced Board of Directors.

## **Key Business Strategies**

### **Continue to forward integrate into more advanced intermediates for Contrast Media**

BJHL offers contrast media intermediates to serve its customers. They have forged strong relationships and built equity with their customers. It enjoy a competitive advantage in the global contrast media market, which is built on their (i) established customer relationships with the top contrast media manufacturers, (ii) deep understanding of their customer's requirements, (iii) chemistry and process development capabilities, and (iv) a proven track record of forward integration. Its 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 feature profiles.

### **Leverage its long-standing customer relationships to continue entering adjacencies in the pharma intermediate and API category**

It has been expanding the 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 believes that they have a competitive edge to continue being a reliable CDMO. The CDMO model allows us to benefit from the accessibility to innovations of new molecules and helps us mitigate their research cost and concentrate on efficient product development on a large scale. It also offers them, an advantageous position to continue to offer such products after they go off-patent in concurrence with their customers.

### **Build additional production capacity to keep in step with the envisaged increase in customer demands**

The Company plans to expand its production capacities in Unit II, from 607.30 KL as of June 30, 2023, to 743 KL by the Financial Year 2025. It plans to expand its production capacity from 213.00 KL as of June 30, 2023, to 499 KL as of the Financial Year 2025 in Unit III. It 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 it to increase its manufacturing capacity and scale the business. Subject to obtaining approvals and construction progress, it expects this Unit IV facility to have an estimated installed capacity of 71 KL. Subject to obtaining approvals and construction progress, it expects the production capacity expansion at Unit III to be completed during the Financial Year 2024, and Unit IV to be operational during the Financial Year 2025.

### **Continue to invest in R&D infrastructure and capabilities**

BJHL is in the process of augmenting its R&D capacity and improving its R&D capabilities, which will allow it to (i) develop and improve its products, and (ii) optimize the production process. As of June 30, 2023, it had a new pilot plant under construction at Unit II. Upon completion, the pilot plant will be used by its R&D team for proof of concepts through pilot-scale manufacturing before industrial-scale validation. Such a process is critical to ensure compliance with the quality-by-design approach as required by the regulatory agencies, which enables consistent control over the production process and reduces process variation. It is also a key element in the "right-first-time" approach in scaling up products.

### Focus on operational efficiency and mitigation of supply chain risks

It aims to expand their 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.

### Product wise breakup

Product Category	FY21	FY22	FY23
Contrast media intermediates	71.54%	70.61%	70.57%
High-intensity sweeteners	19.98%	23.27%	24.48%
Pharma Intermediates and API	8.45%	6.08%	4.73%
Others	0.03%	0.04%	0.22%
<b>Revenue from operations</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Company RHP, ACMIIL Research

### Geography wise breakup

Particulars	FY21	FY22	F23
Europe	79.73%	76.06%	74.49%
India	14.50%	17.14%	13.94%
USA	3.44%	4.18%	4.88%
Others	2.33%	2.62%	6.69%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Company RHP, ACMIIL Research

### Financial Snapshot (Consolidated)

Particulars (Value in Mn.)	2021	2022	2023	30 <sup>th</sup> June, 2023
Revenue from operations	4,989.32	6,834.69	7,209.82	1,795.41
EBITDA	2,060.53	2,492.64	2,190.88	589.56
EBITDA Margin (%)	41.30%	36.47%	30.39%	32.84%
PAT	1,357.87	1,815.91	1,600.27	441.21
PAT Margin (%)	27.22%	26.57%	22.20%	24.57%
ROCE (%)	49.70%	47.13%	31.91%	7.97%
ROE (%)	50.18%	42.16%	26.60%	6.27%
Net cash generated from operating activities	1,292.75	1,464.17	1,415.56	423.20
Fixed asset turnover	4.2	5.77	5.62	1.34
Diluted EPS (Rs.)	9.44	10.47	9.23	2.54

Source: Company RHP, ACMIIL Research

### Risks and concerns

- BJHL is dependent on Europe and the United States, which are regulated markets, for a significant portion of their revenue from operations. Any slowdown in those areas may adversely affect company's financials.
- Company's business is dependent on the sale of products to certain key customers. The loss of any of the key customers or loss of revenue from sales to customers could have a material adverse effect on their business.
- BJHL depends upon 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 its products may adversely affect their business, results of operations, financial condition and cash flows.

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