

Recommendation		SUBSCRIBE		BACKGROUND	
Price Band		Rs 329-346		<p>Blue Jet Healthcare Ltd (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 its incorporation in 1968, they have established a contract development and manufacturing organization business model, they have competencies and manufacturing capabilities in contrast media intermediates and high-intensity sweeteners, including saccharin and its salts.</p> <p>Details of the Issue:</p> <p>The issue size consists of offer for sale worth Rs. 840cr. The promoters i.e. 'Akshay Bansarilal Arora and Shiven Akshay Arora' to offload jointly 2.16cr number of shares.</p> <p>Investment Rationale:</p> <ul style="list-style-type: none"> • Large manufacturer of contrast media intermediates in India • Presence in niche categories with high barriers to entry • Long-standing relationships and multi-year contracts with multi-national customers • Leveraging long-standing customer relationships to continue entering agencies in the pharma intermediate and API category • Strong product development and process optimization capabilities with a focus on sustainability <p>Valuation and Recommendation:-</p> <p>BJHL has a strong track record of overall performance with healthy growth of in topline at 10% CAGR between FY20-23 and 24% growth in Q1FY24 on yoy basis. In terms of operating performance, it has delivered strong margins of more than 35% except in FY23 where it reported 30.4% of EBITDA margin due to increase in raw material prices and employee expenses. However, it has observed improvement in Q1FY24 on account of softening in raw material prices and other expenses. As there are no listed entities having similar business of that BJHL, we are not able to compare it with exact peers. However, we have done peer comparison with the set of companies having strong financials in pharmaceutical industry. Company's ROE and ROCE for FY23 stood at 23.5% and 32.0% are slightly better compared with the average rate of peer performance of 23.3% and 30.2%, respectively. The issue is valued PE valuation of 33.9x based on Q1FY24 annualized EPS which appears reasonable when compared with an average valuation of selected peers of 34.3x.</p> <p>Thus, we recommend SUBSCRIBE to the issue.</p>	
Bidding Date		25th Oct-27th Oct			
Book Running Lead Manager		Kotak Mahindra Capital, ICICI Securities, JP Morgan India			
Registrar		Link Intime India Private Limited			
Sector		Pharmaceutical			
Minimum Retail Application- Detail At Cut off Price					
Number of Shares		43			
Minimum Application Money		Rs. 14878			
Discount to retail		0			
Payment Mode		ASBA			
Consolidated Financials (Rs Cr)		FY22	FY23		
Total Income		683	721		
EBITDA		249	219		
Adj PAT		182	160		
Valuations (FY23)		Lower Band	Upper Band		
Market Cap (Rs Cr)		5,707	6,002		
Adj EPS		9.23	9.23		
PE		36	37		
EV/ EBITDA		26	27		
Enterprise Value (Rs Cr)		5,629	5924		
Post Issue Shareholding Pattern					
Promoters		86.0%			
Public/Other		14.0%			
Offer structure for different categories					
QIB (Including Mutual Fund)		50%			
Non-Institutional		15%			
Retail		35%			
Post Issue Equity (Rs. in cr)		34.7			
Issue Size (Rs in cr)		840			
Face Value (Rs)		2			
<p>Priyanka Baliga Research Analyst (+91 22 6273 8177) priyanka.baliga@nirmalbang.com</p>					
Financials		FY21	FY22	FY23	Q1FY24
Net Revenues		499	683	721	180
Growth (%)		-7.3%	37.0%	5.5%	24.2%
EBITDA		206	249	219	59
EBITDA Margin (%)		41.3%	36.5%	30.4%	32.8%
PBT		185	243	217	58
Adjusted PAT		136	182	160	44
EPS		7.83	10.47	9.23	2.56
ROCE		48.5%	47.3%	32.0%	32.0%
EV/Sales		11.9	8.7	8.2	8.2
EV/EBITDA		28.8	23.8	27.0	25.1
P/E		44.2	33.1	37.5	33.9

Source: RHP, NBRR

Company Background

Blue Jet Healthcare Ltd (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 its incorporation in 1968, it has established a contract development and manufacturing organization (CDMO) business model and it has competencies and manufacturing capabilities in contrast media intermediates and high-intensity sweeteners, including saccharin and its salts.

The company is currently involved in manufacturing and sale of following products:

- **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.
- **High-Intensity Sweeteners:** Company’s 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.
- **Pharma intermediates and active pharmaceutical ingredients (“APIs”):** It provides pharma intermediates and API business to innovator pharma and multi-national generic pharma companies under CDMO model 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”).

As on Jun’23, the company currently operates three manufacturing facilities, which are located at Shahad (Unit I), Ambernath (Unit II) and Mahad (Unit III) in the state of Maharashtra, with an annual installed capacity of 200.6 KL, 607.3 KL and 213.0 KL, respectively. Manufacturing facilities located in Mahad is certified by the World Health Organization for good manufacturing practices, and is registered with the US-FDA. Over the last six years, the company has strategically incurred capital expenditures to expand its manufacturing capacity to meet increased customer demand. In FY21, it acquired a Greenfield manufacturing site on a leasehold basis in Ambernath.

Revenue Breakdown by Geography

Region	2021		2022		2023		Q12023		Q12024	
	Sale	Contr. (%)								
EUROPE	394	80%	515	76.06%	535	74.49%	92.738	64.39%	138.50	77.52%
INDIA	72	14%	116	17.14%	100	13.94%	27.443	19.05%	21.861	12.24%
USA	17	3%	28	4.18%	35	4.88%	8.818	6.12%	7.057	3.95%
OTH	12	2%	18	2.62%	48	6.69%	15.03	10.44%	11.241	6.29%
TOTAL	494		677		718		144		179	

Source: RHP, NBRR

Revenue Breakdown by Product Categories

Product	2021		2022		2023		Q12023		Q12024	
	Sale	Contr. (%)								
Contrast media intermediates	354	72%	478	71%	507	71%	86	60%	129	72%
High-intensity sweeteners	99	20%	157	23%	176	24%	52	36%	40	22%
Pharma intermediates and API	42	8%	41	6%	34	5%	6	4%	9	5%
Others	0	0%	0	0%	2	0%	0	0%	0	0%
TOTAL	494		677		718		144		179	

Source: RHP, NBRR

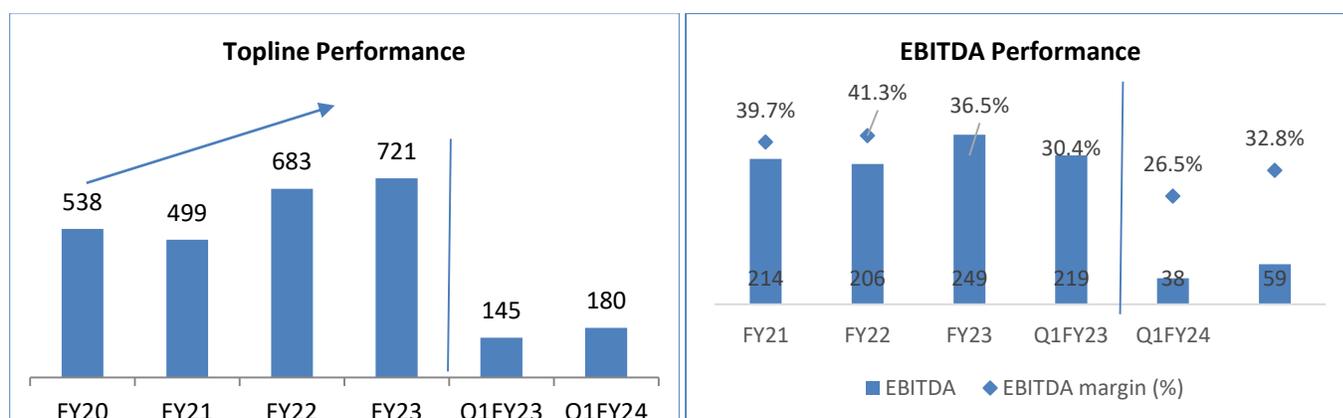
Sales volume for each product category

Product Categories (in MT)	2021	2022	2023	Q1FY23	Q1FY24
Contrast media intermediates	3,718	4,885	4,616	863	1,174
High-intensity sweeteners	1,658	2,500	2,512	751	580
Pharma intermediates and API	300	357	227	68	54
Others	9,444	9,971	9,622	2,339	2,364

Source: RHP, NBRR

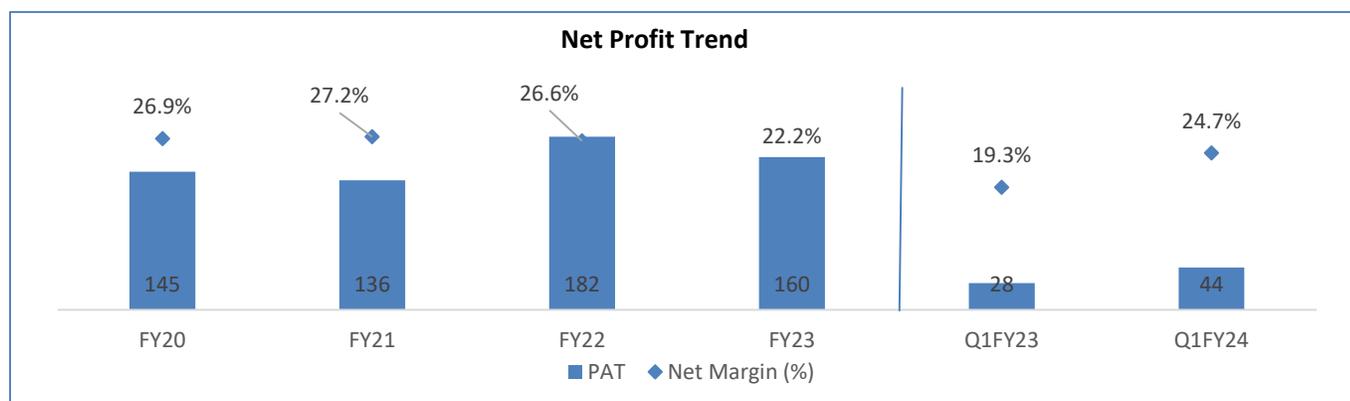
Financial Performance

Topline and Operating Performance

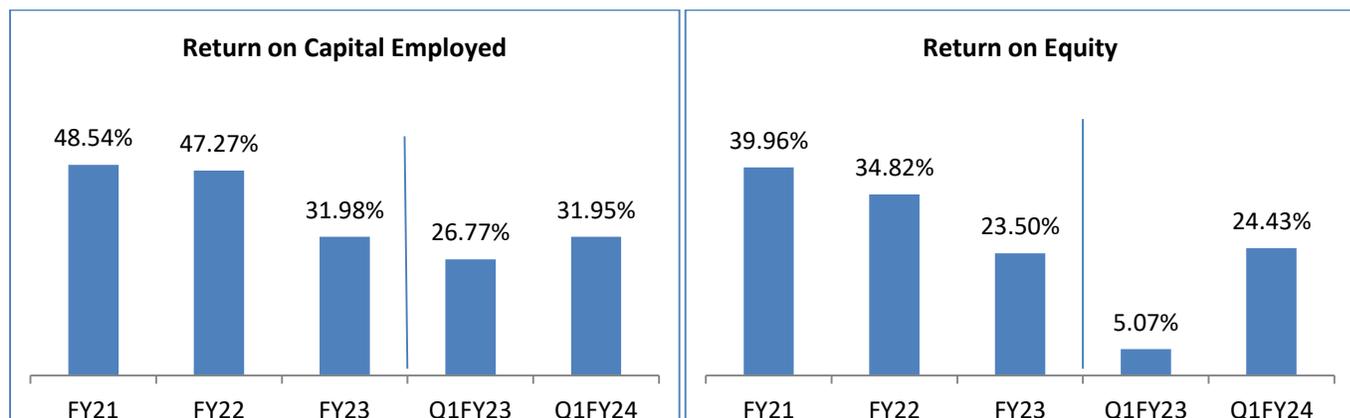


Source: RHP, NBRR

Profitability Ratios



Source: RHP, NBRR



Source: RHP, NBRR

Investment Rationale

Large manufacturer of contrast media intermediates in India

BJHL is one of the India's largest manufacturer of contrast media intermediates with more than two decades of manufacturing experience. It manufactures contrast media intermediates and supply a critical starting intermediate and several advanced intermediates primarily to three of the largest contrast media manufacturers in the world, including GE Healthcare AS, Guerbet Group, and Bracco Imaging S.p.A, directly. BJHL has supplied over 75% of the value of exports of a selected contrast media intermediate (5-Amino-N, N'-bis (2, 3-dihydroxypropyl) isophthalamide) from India over the CY'20-22.

While the company has been supplying the key starting intermediate as the building block, and several functionally critical advanced intermediates, for manufacturing seven of these iodinated contrast media. In 2020, it has developed and commercialized another contrast media intermediate as the building block for all gadolinium-based contrast media. It has moved up the value chain from the building blocks towards developing advanced intermediates to further cater to their customers.

Global contrast media formulation market had a market size of US\$5.9 bn in terms of moving annual turnover (MAT) for Jun'23 which is a highly concentrated market with 70-75% of MAT contributed by four largest contrast media manufacturers from Jun'13 to Jun'23. These four manufacturers are namely 'GE Healthcare AS, Guerbet Group, Bracco Imaging S.p.A and Bayer AG'. The contrast media 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.

In terms of segment details, mentioned in below depicted table.

Contrast Media APIs	Contribution to MAT Jun'23	Contribution in terms of respective market for MAT Jun'23	
Iodinated contrast media APIs	74%	Seven iodinated contrast media APIs	99.0%
gadolinium-based contrast media APIs	24%	Seven gadolinium-based contrast media APIs	99.5%

Presence in niche categories with high barriers to entry

BJHL has a presence in complex chemistry categories such as the contrast media intermediate and high-intensity sweetener. To become a supplier to any large contrast media manufacturers it has to go through (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 are mainly supported by long-term supply contracts. Similarly, stringent supplier qualification criteria need to be met to become a supplier of high-intensity sweeteners to companies in the end-use industries in order to maintain the consistency in quality, taste and impurity profile which are required for end use in beverages, confectionery products and oral care products.

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

BJHL has established a CDMO business model where it collaborates and not compete with its customers. It has also established a long-standing customer relationships in each of its product categories backed by its research and development capabilities, process optimization, technical know-how, knowledge of the regulatory environment, track record of timely fulfilment of customer orders and ability to ramp up manufacturing capacities in close coordination with its key customers.

With this, it has achieved a significant share of the addressable market. It enters into annual and multi-year supply contracts ranging from 1-4 years, thus providing strong visibility and predictability of order book revenue, as well as cashflow visibility. Company's more than 70% of sales over the last 3 years was backed by contracted sales volumes, through both annual and multi-year contracts.

Contrast Media Intermediates: it has a long standing relationships with major four players of global market (having ~75% of market share) and it provide services to them for all the molecules.

High-intensity sweeteners: It has established long-term relationships with several key customers, such as Colgate-Palmolive (India) Limited, Unilever, Prinova US LLC, and MMAG Co. Ltd. It has been able to reduce its dependence on third party suppliers for Key starting materials for high intensity sweeteners that has ensured consistent quality and cost effective production to increase customer stickiness.

Pharma intermediate and API: It manufactures pharma intermediates for Hovione Farmaciência, Olon S.p.A., Esperion Therapeutics Inc., and Bial-Portela & CA, S.A. Also, it provides multi-national generic pharmaceutical companies with pharma intermediates under a CDMO model for manufacturing drugs in chronic therapeutic areas, such as CVS, oncology and CNS.

Company's track record in the required parameters has achieved customer stickiness, with long-standing customer relationships ranging from 4 to 24 years in the contrast media intermediate category, and ranging from 3 to 14 years in the high-intensity sweetener category that has enabled it to maintain its profitability.

Leveraging long-standing customer relationships to continue entering adjacencies in the pharma intermediate and API category

Globally, there is an increasing trend to outsource manufacturing by pharmaceutical companies. BJHL is focusing on three niche areas in providing CDMO services in the pharma intermediate and API category, including:

- Investigational new drugs and NCEs: developing several advanced intermediates for NCEs that are undergoing trials for US-FDA approvals;
- Drugs that are still under patent and not genericized: offering advanced intermediates to innovators for four APIs which are still under patent and being sold only by innovators, including two APIs in the oncology category, one API in the CVS category and one API in the CNS category; and
- Genericized drugs that are still niche: offering multiple advanced intermediates to a number of large generics companies for chronic illness therapies.

With this, BJHL aims to collaborate with innovator and multinational pharma companies as well as to add new customers along with expansion in its product offerings.

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

BJHL has been successful in its forward integration 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. Company's R&D center combines its product development, technology transfer and scale-up functions. It was approved by the Department of Scientific and Industrial Research ("DSIR") in 2018 for recognition of in-house R&D and submitted a renewal application dated Apr'22 for the same.

The company is committed to developing processes that are environmentally friendly, including minimizing solvents and using recycled solvents and water to the extent possible. It has designed its effluent treatment plants with modern standards of flocculation, clarification and aeration to minimize environmental impact. Additionally, it has invested in windmills with an installed capacity of 3.3 MW to reduce carbon footprint. It has two windmills located in Maharashtra, which were installed in Sept'21. From Oct'21 to Jun'23, ~20% of the power consumption of company's manufacturing facilities was supported by these

windmills, which lowered overall electricity and fuel expenses. Electricity and fuel expenses as a % overall revenue reduced from 5.69% in Q1FY23 to 4.10% in Q1FY24.

Further, it is also in the process of augmenting its R&D capacity and capabilities in order to develop and improve its products and optimize its production process. As on Jun'23, it had a new pilot plant under construction at Unit II. Upon completion, the pilot plant will be used by 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. The new pilot plant will be equipped with advanced devices, including batch and continuous reactors and instrumentation, and advanced technology in engineering and safety systems. In addition, BJHL is expanding the R&D team along with capacity of R&D laboratories by adding an additional 35 fume hoods, which are to be divided among seven organic synthesis laboratories.

High Risks and concerns

High dependence on limited number of key customers for topline performance

The company is dependent on the sale of its products to a limited number of key customers. The loss of one or more such customers, the deterioration of their financial condition or prospects, or a reduction in their demand for its products could adversely affect the company, results of operations, financial condition and cash flows.

Regulatory action, litigation or breach of contractual arrangements with Customers

Any manufacturing or quality control problems may subject The Company to regulatory action or litigation, or breach of contractual arrangements with customers, resulting in damage to the company reputation and have an adverse effect on its business, operations, financial condition and cash flows.

Any material changes in government regulations, tax laws and legal uncertainties may have an adverse effect on the company's overall performance

The regulatory and policy environment in which the company operates is evolving and subject to change. Such changes, may adversely affect business, to the extent that the company is unable respond to and comply with any such changes.

Valuation and Recommendation

BJHL has a strong track record of overall performance with healthy growth of in topline at 10% CAGR between FY20-23 and 24% growth in Q1FY24 on yoy basis. In terms of operating performance, it has delivered strong margins of more than 35% except in FY23 where it reported 30.4% of EBITDA margin due to increase in raw material prices and employee expenses. However, it has observed improvement in Q1FY24 on account of softening in raw material prices and other expenses. We expect company has a great potential to grow on account of favorable industry dynamics of contrast media and innovation in FMCG which will drive the growth for contrast media intermediates and sweeteners, respectively. Additionally, we expect robust growth in company's pharma intermediates and pharma API product segment (~4-5% of overall revenue) backed by industry wide increase in outsourcing of pharma intermediate development and manufacturing to CDMOs to leverage economies of scale. As on Jun'23, it has commercialized 20 products in pharma intermediate and API segment of which 8 products are under CDMO model.

As there are no listed entities having similar business of that BJHL, we are not able to compare it with exact peers. However, we have done peer comparison with the set of companies having strong financials in pharmaceutical industry. Company's ROE and ROCE for FY23 stood at 23.5% and 32.0% are slightly better compared with the average rate of peer performance of 23.3% and 30.2%, respectively. The issue is valued PE valuation of 33.9x based on Q1FY24 annualized EPS which appears reasonable when compared with an average valuation of selected peers of 34.3x. **Thus, we recommend SUBSCRIBE to the issue.**

Listed Peers

FY23 Figures	Caplin Point Laboratories	Concord Biotech	Dr. Reddy's Laboratories	Glaxosmithkline Pharma	Suven Pharma	Average	Blue Jet Healthcare
Revenue	1,467	853	24,670	3,252	1,340	6,316	721
CAGR (FY20-23)	19.3%	18.6%	12.1%	0.3%	17.1%	13.5%	10.2%
EBITDA Margin	30.0%	40.9%	25.7%	24.7%	42.3%	32.7%	30.4%
Asset Turns (x)	0.7	0.5	0.8	1.0	0.7	0.7	0.8
Wkg Cap Days	320	150	174	131	232	201	249
ROCE (%)	26.8%	26.7%	26.2%	38.1%	33.0%	30.2%	32.0%
ROE (%)	23.7%	20.1%	21.4%	27.6%	23.7%	23.3%	23.5%
Debt/Equity	0.0	0.0	0.1	0.0	0.0	0.0	0.0
EV/EBITDA	17.3	35.0	14.6	30.7	26.4	24.8	30.2
P/E	21.6	50.9	20.6	42.3	36.4	34.3	33.9*

Source: RHP, NBRR

*Blue Jet Healthcare PE valuation is based on annualized EPS

Financials

P&L (Rs. Cr)	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24	Balance Sheet (Rs. Cr)	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24
Net Revenue	538	499	683	721	145	180	Share Capital	1	10	35	35	35	35
% Growth		-7%	37%	5%	-	24%	Other Equity	201	330	487	647	515	691
Purchases of stock in trade	210	169	287	336	68	79	Minority Interest	1	0	0	0	0	0
% of Revenues	39.1%	34.0%	42.1%	46.6%	47.3%	44.1%	Networth	203	340	522	681	549	726
Employee Cost	24	29	33	42	9	13	Total Loans	78	52	0	0	0	0
% of Revenues	4.4%	5.8%	4.8%	5.8%	6.4%	7.1%	Other non-curr liab.	2	5	17	7	18	6
Other expenses	90	94	114	124	29	29	Trade payable	52	60	57	54	40	60
% of Revenues	16.8%	18.9%	16.6%	17.2%	19.8%	15.9%	Other Current Liab	41	81	118	120	124	113
EBITDA	214	206	249	219	38	59	Total Equity & Liab.	375	536	713	862	732	904
EBITDA Margin	39.7%	41.3%	36.5%	30.4%	26.5%	32.8%	Property, Plant and Equipment	104	119	118	128	114	134
Depreciation	18	20	22	25	6	6	CWIP	2	3	3	30	9	37
Other Income	6	9	19	24	4	5	Other Intangible assets	0	20	38	23	38	24
Interest	7	5	3	1	0	0	Non Currrent Financial assets	10	1	3	3	4	4
Exceptional item	0	5	0	0	0	0	Other non Curr. assets	11	3	2	12	5	17
PBT	194	185	243	217	36	58	Inventories	69	118	105	126	113	133
Tax	49	49	62	57	9	14	cash and cash equivalents	15	70	88	66	118	78
Tax rate	25%	26%	25%	26%	24%	24%	Investments+Loans	29	37	94	189	114	203
Other Comprehensive income	0	0	0	0	0	0	Trade receivables(debtor)	118	144	227	239	190	224
Adj. PAT (norm. Tax)	145	136	182	160	28	44	Other Current assets	17	21	34	45	26	50
% Growth	-	-6%	34%	-12%	-	59%	Total Assets	375	536	713	862	732	904
EPS (Post Issue)	8.36	7.83	10.47	9.23	1.61	2.56							

Ratios & Others	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24	Cash Flow (Rs. Cr)	FY20	FY21	FY22	FY23	Q1FY23	Q1FY24
Debt / Equity	0.4	0.2	0.0	0.0	0.0	0.0	Profit Before Tax	194	185	243	217	36	58
EBITDA Margin (%)	39.7%	41.3%	36.5%	30.4%	26.5%	32.8%	Provisions & Others	38	18	7	18	(0)	2
PAT Margin (%)	26.9%	27.2%	26.6%	22.2%	19.3%	24.7%	Op. profit before WC	233	202	250	234	36	60
ROE (%)	71.5%	40.0%	34.8%	23.5%	20.3%	24.4%	Change in WC	(61)	(73)	(76)	(33)	30	(4)
ROCE (%)	71.9%	48.5%	47.3%	32.0%	26.8%	32.0%	Less: Tax	49	0	28	60	(10)	(13)
							CF from operations	123	129	146	142	57	42
							Purchase/Sale of fixed assets	(16)	(49)	(21)	(59)	(6)	(30)
							Sale/Purchase of Investments	(29)	(8)	(55)	(88)	(20)	(10)
							Interest, dividend and other inc	0	6	0	0	0	0
							CF from Investing	(45)	(51)	(76)	(147)	(26)	(40)
							Repayment towards Lease Liab	0	0	0	(3)	(0)	(1)
							Repayment of Borrowings	(23)	(8)	(29)	0	0	0
							(Repayment)/ proc current debt	(42)	(14)	(23)	0	0	0
							interest & div paid	(7)	(5)	(4)	(1)	(0)	(0)
							CF from Financing	(72)	(27)	(56)	(4)	(1)	(1)
							Net Change in cash	5	51	14	(10)	30	1
							Cash & Bank at beginning	10	10	61	75	75	65
							Cash & Bank at end	15	61	75	65	105	67

Source: Company Data, NBRR

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