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BLUE JET HEALTHCARE LIMITED

October 19, 2023

BLUE JET HEALTHCARE

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	**Healthcare**
Offer for sale (Shares)	24,285,160
Net Offer to the Public	**24,285,160**
Issue Size (Rs. Cr.)	798-841
Price Band (Rs.)	329-346
Offer Date	25-Oct-23
Close Date	27-Oct-23
Face Value	2
Lot Size	43

Issue Composition

In shares

Total Issue for Sale	24,285,160
QIB	12,142,580
NIB	3,642,774
Retail	8,499,806

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	100.00%	86.00%
QIB	0.00%	7.00%
NIB	0.00%	2.10%
Retail	0.00%	4.90%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The company will not receive any proceeds from the Offer and all the Offer Proceeds will be received by the Selling Shareholders, in proportion to the Offered Shares sold by the respective Selling Shareholders as part of the Offer.

Book Running Lead Manager

- Kotak Mahindra Capital Company Limited
- ICICI Securities Limited
- J.P. Morgan India Private Limited

Name of the registrar

- Link Intime India Private Limited

About the company

Incorporated in 1968, Blue Jet Healthcare is a pharmaceutical and healthcare ingredient and an intermediate company. Blue Jet Healthcare was the first manufacturer of saccharin and its salts (artificial sweeteners) in India. The company later expanded into contrast media intermediates, which are used in CT scans and MRIs. The company mainly deals in three product categories: (i) contrast media intermediates, (ii) high-intensity sweeteners, and (iii) pharma intermediates and active pharmaceutical ingredients. Blue Jet Healthcare is a global, science-led pharmaceutical company. They are the provider of:

- Process development and production capabilities
- Global regulatory support
- Collaboration, development, and manufacturing of advanced pharmaceutical intermediates and API.

The company has three manufacturing facilities, which are situated 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. As of 30 June 2023, the company has catered to more than 400 customers in 39 countries. The company's global and domestic customers include GE Healthcare AS, Guerbet Group, Bracco Imaging SpA, Colgate-Palmolive (India), Unilever, Prinova US LLC, and MMAG Company. In FY22, 76 percent of the company's income came from Europe, followed by India (17.14 percent), the US (4.18 percent) and some other countries.

Strength

Large manufacturer of contrast media intermediates in India: With more than two decades of experience in manufacturing contrast media intermediates Blue Jet is a large manufacturer of contrast media intermediates in India. 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. It 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 calendar years 2020 to 2022.

Presence in niche categories with high barriers to entry: Blue Jet strategically focuses on complex chemistry categories in both the contrast media intermediate and high-intensity sweetener categories, specifically on products required by customers, and products selected by its internal product portfolio team. The barriers to entry for becoming a supplier to any of the large contrast media manufacturers are high, as 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, it collaborates and not competes with its customers. With its research and development capabilities, process optimization, technical know-how, knowledge of the regulatory environment, track record of timely fulfilment of customer orders and ability to ramp up manufacturing capacities in close coordination with its key customers, it has been able to establish long-standing customer relationships in each of the product categories where it operates. Blue Jet enters into annual and multi-year supply contracts ranging from one to four years, thus providing strong visibility and predictability of order book revenue, as well as cashflow visibility. More than 70% of its total sales in each of the Financial Years 2021, 2022 and 2023 and the three months ended June 30, 2023 were backed by contracted sales volumes, through both annual and multi-year contracts.

Strong product development and process optimization capabilities with a focus on sustainability: Blue Jet business is attributable to its strong product development and process optimization capabilities, underpinned by its in-house R&D capabilities, which has enabled it 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: 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. The layouts and equipment configuration of its manufacturing facilities help it ensure batch-to-batch consistency. Many of the critical steps during the manufacturing process, such as hydrogenation, are semi-automated, which facilitates consistent quality of its products. Its facilities have received accreditation from various regulatory agencies. In particular, Unit II facility has been subject to US-FDA inspections in the Financial Year 2018, following which, it received the US-FDA establishment inspection report in November 2019. As the offtake volume of its customers continued to increase, its production capacity increased rapidly from an aggregate installed capacity of 230 KL as of March 31, 2018 to 1,020.90 KL as of June 30, 2023.

Strategy

Continue to forward integrate into more advanced intermediates for Contrast Media: It offers contrast media intermediates to serve customers. It has forged strong relationships and built equity with its customers. It enjoys a competitive advantage in the global contrast media market, which is built on (i) established customer relationships with the top contrast media manufacturers, (ii) deep understanding of its customers' requirements, (iii) chemistry and process development capabilities, and (iv) proven track record of forward integration. By further improving its technical know-how and chemistry capabilities in close synergy with its customers, it intends to capture a larger wallet share with its existing customers going forward.

Leverage long-standing customer relationships to continue entering adjacencies in the pharma intermediate and API category: Given its process research, analytical research and chemistry capabilities, continuous focus on product quality and long-standing relationships with innovator companies, it believes that it has a competitive edge to continue being a reliable CDMO. The CDMO model allows it to benefit from the accessibility to innovations of new molecules, and helps it mitigate its research cost and concentrate on efficient product development on a large scale. It also offers the company an advantageous position to continue to offer such products after they go off-patent in concurrence with its customers.

Build additional production capacity to keep in step with the envisaged increase in customer demands: Blue Jet capacity expansion is largely driven by customer demand. Based on customer interest and purchase orders, the company foresees an increase in demand in the contrast intermediates and API activity. 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 its business.

Continue to invest in R&D infrastructure and capabilities: Blue Jet 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 its 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 R&D team for proof of concepts through pilot-scale manufacturing before industrial-scale validation. In connection with R&D expansion plan, Blue Jet is increasing the size of its R&D team to keep in step with (i) development of new products; (ii) the new technologies that are being adopted increasingly in its production lines; and (iii) efforts to optimize the production process, including minimizing product isolation stages and transitioning to semi-continuous manufacturing from batch manufacturing.

Focus on operational efficiency and mitigation of supply chain risks : Blue Jet aims to expand its margins through improved operational efficiency, semi-automation and economies of scale. To further enhance its operational efficiency, Blue Jet 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. It will continue to seek opportunities in import substitution, and implement dual sourcing initiatives to reduce dependence on single sources of raw material supplies. Blue Jet will also implement a backward integration strategy for certain key contrast media intermediates with a plan to manufacture a key starting material in-house, thereby improving cost efficiency, reducing dependence on imports and mitigating the risk of foreign exchange fluctuation.

Risk factor

- The company is dependent on Europe and the United States, which are regulated markets, for a significant portion of its revenue from operations.
- Its inability to successfully expand its production capacity could have an adverse effect on its business, results of operations, financial condition and cash flows.
- It depends upon a limited number of raw material suppliers and its three largest suppliers are located in China, Norway and India.

Peer comparison

According to RHP, there are no listed companies in India that engage in a business similar to that of the company. Accordingly, it is not possible to provide an industry comparison in relation to the company.

Valuation

Considering the P/E valuation on the upper price band of Rs.346, EPS and P/E of FY2023 are Rs.9.23 and 37.51 multiple respectively and at a lower price band of Rs. 329, P/E multiple is 35.66. Looking at the P/B ratio on the upper price band of Rs.346, book value and P/B of FY23 are Rs. 39.29 and 8.81 multiple respectively and at a lower price band of Rs. 329 P/B multiple is 8.37. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital

Industry Outlook

The moving annual turnover of the global contrast media formulation market was approximately US$5.9 billion for June 2023, and is forecasted to grow at a CAGR of 6% to 8% between calendar years 2023 and 2025, primarily led by increased volumes. (Source: IQVIA Report) The global high-intensity sweetener market was approximately US$2.9 billion to US$3.0 billion, as of the calendar year 2023. (Source: IQVIA Report) The end product markets for high-intensity sweeteners, including oral care and non-alcoholic beverages, among others, are expected to grow at CAGRs of between 3% and 8% during calendar years 2023 to 2026. (Source: IQVIA Report).

Outlook

Blue Jet Healthcare, which established a contract development and manufacturing organization (CDMO) business model, operates its business in three product categories, one is contrast media intermediates, second is high-intensity sweeteners, and the last is pharma intermediates and active pharmaceutical ingredients (APIs). Its business model focuses on collaboration, development, and manufacturing of complex chemistry categories. However, the company is dependent on Europe and the United States, which are regulated markets, for a significant portion of its revenue from operations. Moreover the entire issue is OFS; the fund raised through this issue will not go to the company.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	25-October-23
BID/ISSUE CLOSES ON	27-October-23
Finalisation of Basis of Allotment with the Designated Stock Exchange	01-November-23
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	02-November-23
Credit of Equity Shares to demat accounts of Allottees	03-November-23
Commencement of trading of the Equity Shares on the Stock Exchanges	06-November-23

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Jun-23 (6 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	179.54	720.98	683.47
Total expenditure	120.59	501.89	434.21
Operating Profit	**58.96**	**219.09**	**249.26**
OPM%	32.84	30.39	36.47
Other Income	5.06	23.96	19.41
PBDIT	**64.02**	**243.04**	**268.68**
Depreciation	6.05	25.07	22.15
PBIT	**57.97**	**217.97**	**246.53**
Interest	0.05	1.36	3.30
Profit before tax	**57.92**	**216.61**	**243.23**
Tax	13.80	56.58	61.64
PAT	**44.12**	**160.03**	**181.59**

Balance sheet is on next page

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Balance Sheet

Rs. in Cr.

Particulars	As on 30-Jun-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	134.09	128.24	118.48
Intangible assets	0.08	0.04	0.00
Capital work-in-progress	37.45	30.46	3.43
Right-of-Use assets	23.80	22.76	38.00
Financial Assets			
Other Financial Assets	3.57	3.39	3.01
Deferred tax assets (net)	0.00	0.00	0.00
Other Non Current Assets	17.06	12.12	2.11
Total Non Current Assets	**216.04**	**197.02**	**165.03**
Current assets			
Inventories	133.10	125.66	105.03
Financial Assets			
Investments (Current)	202.74	189.28	93.77
Trade Receivables	224.37	239.38	227.44
Cash and Cash Equivalents	66.63	65.44	75.37
Other Balances with Banks	11.19	0.19	12.29
Other Current Financial Assets	19.60	18.49	6.80
Other Current Assets	30.13	26.61	27.43
Total current assets	**687.76**	**665.05**	**548.13**
Assets held for sale54	0.00	0.00	0.21
Total Assets	**903.80**	**862.07**	**713.38**
Non-current liabilities			
Financial liabilities			
Borrowings	0.00	0.00	0.00
Lease Liabilities	1.25	1.55	13.30
Provisions	4.17	4.13	3.77
Deferred tax Liabilities (net)	0.44	1.02	0.26
Total non-current liabilities	**5.87**	**6.70**	**17.33**
Current liabilities			
Financial liabilities			
Borrowings	0.00	0.00	0.00
Lease liabilities	1.24	1.89	4.02
Trade payables			
Total outstanding dues of micro enterprises and small enterprises	3.65	4.76	5.93
Total outstanding dues of creditors other than micro enterprises and small enterprises	55.93	49.03	50.62
Other current financial liabilities	27.49	35.59	27.03
Other Tax liabilities	82.15	80.94	85.11
Other Current Liabilities	1.26	1.18	1.29
Provisions	0.55	0.50	0.49
Total current liabilities	**172.26**	**173.88**	**174.50**
Total	**178.12**	**180.58**	**191.83**
NET Worth	**725.68**	**681.49**	**521.54**
Net worth represented by:			
Equity Share Capital	34.69	34.69	34.69
Other Equity	690.99	646.79	486.85
Net Worth	**725.68**	**681.49**	**521.54**

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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