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BLUEJET HEALTHCARE LIMITED

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IPO Report

24th Oct'23

Snapshot

Bluejet Healthcare Ltd is a speciality 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, company have 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 research and development ("R&D") and manufacturing infrastructure.

VALUATION

Company is bringing the issue at price band of Rs 329-346 per share at p/e multiple of 34x on post issue annualized Q1FY24 PAT basis.
Company being large manufacturer of contrast media intermediates in India has Presence in niche categories with high barriers to entry .Company's long-standing relationships and multi-year contracts with multi-national customers has strong product development and process optimization capabilities with a focus on sustainability.
Hence, we recommend "Subscribe" on issue.

Price Band (Rs./Share)	**329-346**
Opening date of the issue	**25th Oct '2023**
Closing Date of the issue	**27th Oct '2023**
No of shares pre issue	173465415 Eq Shares
Issue Size	Rs 799-840 Cr
Offer For Sale	24285160 Eq Shares
Face Value (Rs/ share)	Rs 2/share
Bid Lot	43
BIDDING DETAILS	
QIBs (Including Anchor)	50% of the offer (12142580 Eq Shares)
Non-Institutional	15% of the offer (3642774 Eq Shares)
Retail	35 % of the offer (Approx 8499806 Eq Shares)
Lead managers	Kotak Mahindra Capital, ICICI Securities, J.P.Morgan India
Registrar to the issue	Link Intime India Pvt. Ltd

WHAT WE LIKE

Presence in niche categories with high barriers to entry

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

Company enter 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 company's 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. In the high-intensity sweetener category, company's ability to deliver quality products has enabled company to establish longterm relationships with several key customers, such as Colgate-Palmolive (India) Limited, Unilever, Prinova US LLC, and MMAG Co. Ltd. Company manufacture pharma intermediates for Hovione Farmaciência, Olon S.p.A., Esperion Therapeutics Inc., and Bial–Portela & CA, S.A. Company also provide multinational generic pharmaceutical companies with pharma intermediates under a CDMO model for manufacturing drugs in chronic therapeutic areas, such as CVS, oncology and CNS.

Large manufacturer of contrast media intermediates in India

According to the IQVIA Report, global contrast media formulation market had a market size of US$5.9 billion in terms of moving annual turnover 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. With more than two decades of experience in manufacturing contrast media intermediates, company is a large manufacturer of contrast media intermediates in India. 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.

COMPANY BACKGROUND

Product Categories :

Company's operations are primarily organized in three product categories: (i) contrast media intermediates, (ii) highintensity sweeteners, and (iii) pharma intermediates and active pharmaceutical ingredients ("APIs").

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 global contrast media formulation market had a market size of US$5.9 billion in terms of moving annual turnover1 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.

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 costeffective production processes. The global high-intensity sweetener market was estimated to be between US$2.9 billion to US$3.0 billion in size, as of the calendar year 2023, comprising products such as sucralose, aspartame, saccharin, stevia and neotame.

Pharma Intermediates and APIs Company's 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").

Company's Geographies

	Financial Year					
	2021		2022		2023	
	Revenue from sales of products (₹ millions)	Contribution to total revenue from sales of products (%)	Revenue from sales of products (₹ millions)	Contribution to total revenue from sales of products (%)	Revenue from sales of products (₹ millions)	Contribution to total revenue from sales of products (%)
Europe	3040.19	79.73%	5147.85	76.06%	5351.41	74.49%
India	716.55	14.50%	1159.70	17.14%	1001.84	13.94%
USA	170.13	3.44%	282.96	4.18%	350.81	4.88%
Others	115.23	2.33%	177.29	2.62%	480.75	6.69%
Total	**4942.10**	**100.00%**	**6767.80**	**100.00%**	**7184.81**	**100.0%**

Company 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. Company's facilities undergo stringent customer audits on a recurring basis. Company's Unit II facility is certified by the World Health Organization for good manufacturing practices, and is registered with the US-FDA. In addition, the preparedness of audit inspection of company's Unit II facility began in the year 2018, following which company's Unit II facility was inspected in September 2019 by US-FDA and it received the US-FDA establishment inspection report in November 2019. Over the last six years, in order to meet increased customer demand, company have strategically incurred capital expenditures to expand company's manufacturing capacity. In the Financial Year 2021, company acquired a "greenfield" manufacturing site on a leasehold basis in Ambernath (Unit IV). Company's manufacturing is driven by customer demands, which are contracted in advance. Given the nature of company's medium- to long-term supply contracts with its customers, company is able to plan for capacity utilization and expansion ahead of time.

INVESTMENT RATIONALE	
Large manufacturer of contrast media intermediates in India	With more than two decades of experience in manufacturing contrast media intermediates, company is a large manufacturer of contrast media intermediates in India. 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. Company have 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.
Strong product development and process optimization capabilities with a focus on sustainability	Company's business is attributable to its strong product development and process optimization capabilities, underpinned by its in-house R&D capabilities, which has enabled company 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. 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. Company have submitted a renewal application dated April 30, 2022 for the same. Over the past 50 years, through company's R&D center, company have developed over 100 products, with over 40 products commercialized. In addition, company have a team of engineers in its R&D center who work on scaling up products, from the proof of concept stage, to producing engineering and trial batches, and finally producing the plant scale validation batches. This team of engineers also continuously works on process improvements to optimize its operational efficiency and cost structure.
Manufacturing facilities with regulatory accreditations	Company 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 company's manufacturing facilities help company 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 company's products. Company's facilities have received accreditation from various regulatory agencies. In particular, company's Unit II facility has been subject to US-FDA inspections in the Financial Year 2018, following which, it received the USFDA establishment inspection report in November 2019.
Experienced management team with proven execution capabilities	Company's Executive Chairman, Akshay Bansarilal Arora, has over three decades of experience in business operations, project management and business development. Company's Managing Director, Shiven Akshay Arora, has more than six years of experience in business management. Naresh Suryakant Shah is an Executive Director of Company and has been associated with Company for more than three decades, with more than three decades of experience in marketing. Vimalendu Kumar Singh, company's Chief Operating Officer, is experienced in formulations, drug delivery, APIs, business development, corporate strategy, and mergers and acquisitions, and is responsible for its operations. Dr. Chandrashekar Parenky is the President for Research and Development, and is experienced in the pharmaceutical industry. Ganesh Karuppannan, its Chief Financial Officer, has been an associate member of Institute of Chartered Accountants of India since 1988, and is experienced in corporate finance, mergers and acquisitions, and risk management, having worked on a number of corporate actions and cross-border structuring.

OBJECTS OF OFFER

The objects of the Offer are to (i) achieve the benefits of listing the Equity Shares on the Stock Exchanges; and (ii) carry out the Offer for Sale of up to 24,285,160 Equity Shares by the Selling Shareholders.

RISKS

Company is a speciality pharmaceutical, healthcare ingredients and intermediates company and depend upon this sector for its business. Further, company's business is dependent on the sale of 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 company's products could adversely affect its business, results of operations, financial condition and cash flows.

Source:RHP

INDUSTRY OVERVIEW

Overview of Pharmaceuticals Intermediates Manufacturing

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. For pharma intermediates, three key growth drivers are: • 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 selfsufficiency. • Overall growth drivers for the global pharmaceuticals market.

High-Intensity Sweetener Market Overview

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.

High-Intensity Sweeteners: Market Size and Growth

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.

Contrast Media API and Intermediates Landscape

Contrast media intermediates players are primarily based in India and China. Even prior to COVID-19, formulations companies were looking to de-risk their dependence on a single country. COVID-19 has further accentuated this need and formulations companies are increasingly looking to source intermediates from a diverse set of countries (including India), on account of:
• Established credentials of India in pharmaceuticals manufacturing;
• Large pool of talent (pharmaceuticals graduates, engineers) available in India; and
• Established track record in delivering intermediates and APIs that adhere to the quality norms of formulations players and regulatory authorities.

This ought to result in increased demand for intermediates manufactured by established Indian contrast media players considering (a) the stickiness of the customer relationships in the contrast media space, as described above, and (b) the trend for de-risking the dependence on a single country.

There does not exist an industry standard / industry recognized data-set that provides the size, market share, quantity supplied, growth trends, competitive landscape of contrast media intermediates. Based on secondary research, the following is noted:

• A limited number of India-based players supply contrast media intermediates to contrast media API / formulations companies based in United States and Europe.

• There exist cases of molecules / intermediates where, for a specific molecule / intermediate level, a single player has supplied greater than 75% of the value of the intermediates exported from India over the past three years. One of the examples of this phenomenon is that of 5-Amino-N, N'-bis (2, 3-dihydroxypropyl) isophthalamide (Trade name: ABA), where over the past 3 calendar years, the Company has supplied over 75% of the value of exports of the intermediate from India (Source: Data on imports to and exports from India, as available in public domain, secondary research).

Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	Q1FY24
Total Revenue (A)	4989.32	6834.69	7209.82	1795.41
Total Expenditure (B)	2928.79	4342.05	5018.94	1205.85
EBIDTA	2060.53	2492.64	2190.88	589.56
EBIDTA Margin	41.30	36.47	30.39	32.84
Other Income	88.81	194.12	239.56	50.63
Depreciation	196.62	221.46	250.74	60.50
EBIT	1952.72	2465.30	2179.70	579.69
Interest	53.08	33.00	13.59	0.48
PBT	1899.64	2432.30	2166.11	579.21
Extraordinary Items	-53.07	0.00	0.00	0.00
PBT	1846.57	2432.30	2166.11	579.21
Tax	488.70	616.39	565.84	138.00
PAT	1357.87	1815.91	1600.27	441.21
NPM	27.22	26.57	22.20	24.57
ROE %	39.96	34.82	23.48	6.08
EPS	7.98	10.47	9.23	2.54
Eq Cap	99.12	346.93	346.93	346.93
Net Worth	3,398.18	5,215.42	6,814.86	7,256.80

(Source: RHP)

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