

26th October 2023

Blue Jet Healthcare Ltd – SUBSCRIBE

Investment Thesis

- Blue Jet Healthcare Ltd. (Blue Jet) is set to launch its initial public offering (IPO) on October 25, 2023. The offering is a complete offer for sale (OFS) and as such, Blue Jet will not directly receive any proceeds from the Offer. The company expects that the proposed listing will enhance its visibility and brand image.
- Blue Jet is a specialized pharmaceutical and healthcare company that offers a range of niche products designed for innovators and multi-national generic pharmaceutical firms. Blue Jet has two verticals in its business:
 - An established CDMO business with specialized chemistry capabilities in contrast media intermediates and high-intensity sweeteners
 - A Pharma intermediaries and API business that primarily focuses on collaborating with innovator pharmaceutical companies and multi-national generic pharmaceutical companies.
- Blue Jet's operations are primarily bifurcated into the following product categories.
 - 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:** This is a backward integrated category wherein development, manufacturing and marketing of saccharin and its salts. Saccharin is primarily used in table-top sweeteners, oral care products such as toothpaste and mouthwashes, beverages (primarily soft drinks), confectionary products, pharmaceutical products, food supplements and animal feeds.
 - Pharma Intermediates and APIs:** The CDMO activity in the pharmaceutical intermediates and API business predominantly revolve around partnerships with both multinational generic pharmaceutical firms and innovative companies. Such partnerships are aimed at providing pharma intermediates that serve as building blocks for APIs in chronic therapeutic areas which include the cardiovascular system (CVS), oncology, and central nervous system (CNS), which encompass new chemical entities (NCEs).

Revenue from business Verticals

- Over the past 3 years, the topline for Blue Jet has grown at a steady CAGR of 13% to reach Rs. 720.9 crs in FY23. The nature of product portfolio enables Blue Jet to earn a healthy operating profit.

Particulars	FY21	FY22	FY23	Q1FY24
Revenue (Rs. in crs)	498.9	683.4	720.9	179.5
EBITDA (Rs. in crs)	206.0	249.2	219.0	58.9
PAT (Rs. in crs)	135.8	181.6	160.0	44.1
Return on Capital Employed (%)	49.7	47.1	31.9	NA
Return on Equity (%)	50.2	42.2	26.6	NA
Fixed Asset Turnover (x)	4.2	5.8	5.6	NA

IPO Details

Issue Open Date	25 October 2023
Issue Close Date	27 October 2023
Price Band (Rs.)	Rs. 329 – Rs. 346
Issue Size*	Rs. 840 crs
Issue Size (Shares)	2.42 crs
Market Lot	43 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 2/-

* At highest price band

Key Details

Fresh Issue*	NA
Issue Type	Book Building
Book Running Lead Manager	Kotak Investment Banking ICICI Securities J.P. Morgan
Issue structure	Non-Institutional: 15% Retail: 35%
Credit of Shares to Demat Account	03 November 2023
Issue Listing Date	06 November 2023

* At highest price band

- These high margins products have helped generate consistent and substantial Cashflow from Operation (CFO) over the past 3 years. During FY23, CFO stood at Rs. 141.6 crs and for Q1FY23 CFO is Rs. 42.3 crs. Consequently, the Free Cash Flow (FCF) generation has been consistent.

Key Business Highlights

- **Large manufacturer of contrast media intermediates in India:** Blue Jet is one of the largest manufacturers of contrast media intermediates in India. It manufacture and supply contrast media intermediates and critical starting 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:** Blue Jet has strategic focus on complex chemistry categories in both the contrast media intermediate and high-intensity sweetener categories, specifically on products required by customers. The barriers to entry for becoming a supplier to any of the large contrast media manufacturers are high.
- **Strong product development:** Blue Jet possesses robust R&D capabilities, which have facilitated its progression from producing a single key intermediate compound used in the manufacturing of contrast media to an array of 18 additional advanced intermediate compounds which yield higher realization and profitability per unit.
- **Capacity expansion:** Blue Jet is expanding its production capacities to ensure it cater to the growing demand of its customers, thereby enhancing revenue growth. In line with this objective, the company's management has planned to increase its production capacity at Ambarnath to 743 KL from 607.3 KL and at Mahad to 499 KL from 213 KL by the end of FY25.
- Europe is a significant market for Blue Jet as 74.5% of the total revenue for FY23 was earned from this region.
- Contract media intermediates are the key segment of the product portfolio which constitute 70.6% of FY23 revenue. The growth in the contrast media space is expected to increase significantly over the coming years by virtue of the China + 1 strategy.
- The largest customer contributed to 63.3% of FY23 revenue and 59.7% of Q1FY24. The Top 5 customer account for 74.6% of FY23 revenue and 73.2% of Q1FY24.

Valuation

At the upper price band, Blue Jet is priced at 37.5x FY23 EPS. There are no listed peers against which we can have a comparison for Blue Jet, however it belongs to the healthcare industry, therefore we can compare it against the average PE of the industry and currently the average industry PE is 30.2x. Therefore, we believe the issue is reasonably priced.

Therefore, considering the bright growth prospects, capex plan, healthy financials, robust return ratios and a sanguine industry outlook, we assign a **"SUBSCRIBE"** rating to IPO of Blue Jet. Investors should subscribe to the IPO with a medium to long term horizon.

Risk & Concern

- Dependent on third-party suppliers and transporters, largely located in China, Norway, and India.
- Raw materials are subject to supply disruptions and price volatility and any disruption in the supply of such products could adversely affect the business.
- Over dependence of a single customer and European region.

Graphs & Charts

Figure 1: Revenue Trend (FY23)

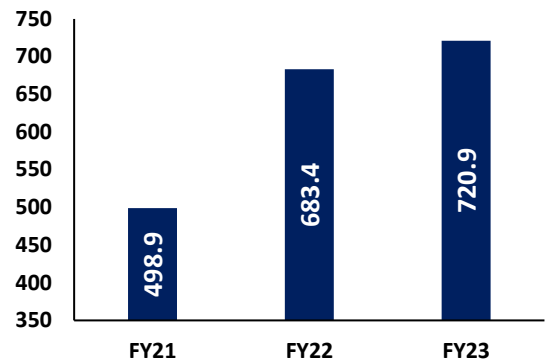


Figure 2: EBITDA & Margin Trend (FY23)

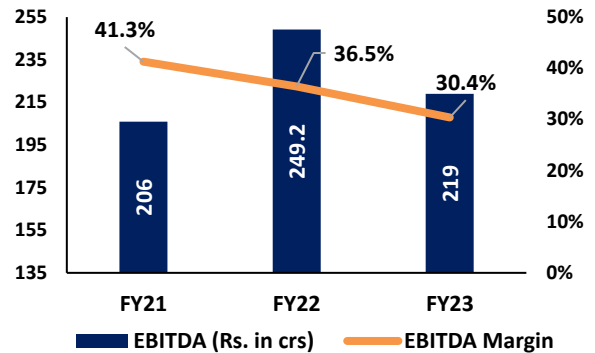


Figure 3: Region-wise distribution (FY23)

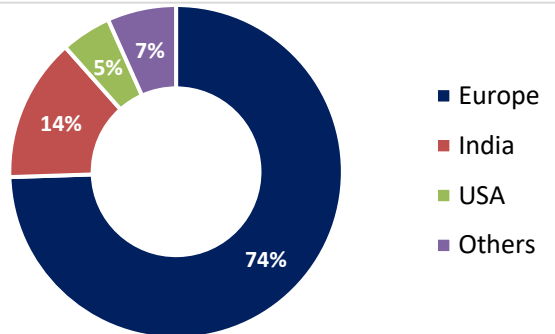
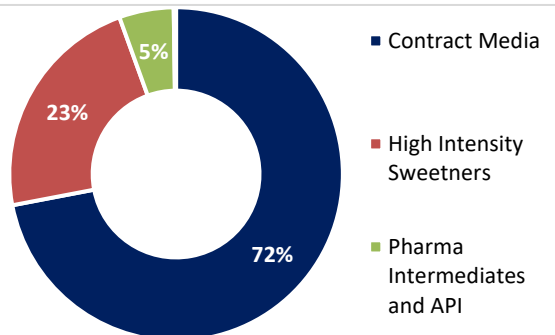


Figure 4: Product-wise Distribution (Q1FY24)



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